Supreme Court, U. S.
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IN THE

Supreme Court of the United States

OCTOBER TERM, 1976

No. 76-1531

LEX TEX LTD INC.,

Petitioner,

v.

UNIVERSAL TEXTURED YARNS, INC., *et al.*,

Respondents,

v.

BURLINGTON INDUSTRIES, INC.,

Respondent;

v.

HIALEAH KNITTING MILLS, INC., *et al.*;

Respondent;

v.

CONCORDIA MANUFACTURING CO., INC.,

Respondent,

v.

GOLD MILLS, INC.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

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IN THE

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No.

LEX TEX LTD. INC.,

Petitioner

v.

UNIVERSAL TEXTURED YARNS, INC. *et. al.* AND OTHERS,

Respondents

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

Petitioner prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Fifth Circuit entered in the above-entitled cases on November 5, 1976.

CITATIONS TO OPINIONS BELOW

The two relevant opinions of the District Court are printed in the Appendix hereto (App. 3a and App. 34a), and are reported at 398 F.S. 31 (S.D. Fla. 1975) and 398 F.S. 51 (S.D. Fla. 1975). The opinion of the Court of Appeals and its ruling on Petitioner's Motion for reconsideration is also

printed in the Appendix (App. 78a) and is reported at 541 F.2d 1127 (C.A. 5, 1976).

JURISDICTION

The mandate of the Court of Appeals was dated February 11, 1977 and entered on the same date, following denial of Petitioner's Motion for Rehearing on February 3, 1977. The jurisdiction of this Court is evoked under 28 U.S.C. Sec. 1254(1).

QUESTIONS PRESENTED

I. Should this Court exercise its supervisory powers to set aside an affirmance by the Fifth Circuit of a Summary Judgment against Lex Tex which arose out of proceedings which so far departed from what is accepted and usual that Lex Tex was deprived of any opportunity whatever to deal with supposed facts which were the keystone of the ruling against Lex Tex by the Fifth Circuit. (This anomaly occurred when the Fifth Circuit rejected or ignored all grounds which had been briefed and argued in the District Court on which the District Court relied in holding Lex Tex's patents unenforceable because of misuse, and, to support its own novel theory of *per se* price fixing, made certain incorrect factual assumptions concerning business practices in the textile trade which no one had any reason to believe were involved in the case until imported in the Fifth Circuit's opinion in which the ruling against Lex Tex was fait accompli.)

II. Was it error for the Fifth Circuit to hold that Lex Tex's agreement with a manufacturer of machinery (which performed Lex Tex's patented process) to share part of the royalty which Lex Tex hoped to receive from such of his customers who elected to take a license from Lex Tex

constituted a *per se* price fixing violation with respect to the machinery pursuant to the broad rationale of this Court's ruling in *United States v. Line Material Company*, 333 U.S. 287 (1948) at 315 where:

1. Lex Tex *was not a competitor* of the machinery manufacturer and was not making or selling anything on which the price could be jointly "fixed" (Cf: *Line Material* case);

2. There was no agreement concerning *any price whatever* of products or machinery of any kind (Cf: *Line Material* case); and

3. There was no cross-licensing of patents (Cf: *Line Material* case).

STATUTE INVOLVED

The statute involved is 15 U.S.C. Sec. 1 the pertinent parts of which read as follows:

> "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal * * *"

The full text of the statute is set forth in the appendix (App. 1a).

STATEMENT OF THE CASE

The Lex Tex Patents

Lex Tex owns three patents which relate to the texturing of synthetic yarns so as to make them comparable to natural yarns in appearance, bulk and touch. One of the important uses for such yarns is in the knitting of double-knit fabrics.

Two of the Lex Tex patents (3,091,912 and 3,074,724) were obtained from Leesona Corporation in September, 1967.

Leesona is an American company which manufacturers textile machinery. Leesona had obtained the patents from inventors, Seem and Stoddard, under the terms of an agreement made on December 14, 1954 between Leesona and the Permatwist Company, a partnership consisting of the two inventors and two others who financed their work. The Lex Tex patents are sometimes referred to as "the double heater" patents and represent a second generation development of false twist (single heater) texturing, an immensely successful process for imparting stretch and bulk to normally flat and shiny synthetic yarns which was made viable through Seem and Stoddard inventions. The single heater inventions were the principal subject matter of the December 14, 1954 agreement. The background of the patents is detailed by the Fifth Circuit in *Sauquoit Fibers Company v. Leesona Corporation*, 489 F.2d 271 (C.A. 5, 1974).

In 1967, Leesona was engaged in successfully commercializing the single heater inventions and was reluctant to become involved in the development of the double heater inventions. Permatwist's reward for transfering its double heater invention to Leesona under the December 14, 1954 agreement was dependent entirely on licensing income and, consequently, Permatwist insisted that Leesona carry out its responsibility to license the double heater inventions or turn them over to someone who would. Leesona and Permatwist agreed on the latter expedient and, in September, 1967, the double heater patents were assigned to Lex Tex Limited, a North Carolina corporation which was the predecessor of the Petitioner, a Florida corporation.

The third Lex Tex patent (3,472,011) was obtained by Lex Tex from Ernest Scragg & Sons Ltd., an English manufacturer of double heater machines, under an agreement of June 16, 1971. The 011 patent contains claims which cover the same double heater machines which are covered by the Lex Tex patents and the Scragg patented improvements cannot be used without infringing the broader Lex Tex patents.

The nature and importance of these patents is discussed by the Judicial Panel for Multi-District Litigation in 341 F. Supp. 376 (1972).

The Machinery Manufacturing License Agreements

Lex Tex has no machinery making capability and made agreements with three machinery manufacturers regarding machines covered by the Lex Tex patents.

The first of the "manufacturing license agreements" which the Fifth Circuit found to comprise *per se* price fixing was made with Leesona as part of the agreement under which Lex Tex acquired the 912 and 724 patents in September, 1967. The second such agreement was made on February 21, 1969 with the Barmag Company, a German manufacturer of both single and double heater machines. This Barmag agreement appears in the Appendix (App. 119a).

The last of the three such agreements was made as part of the agreement of June 17, 1971 under which Lex Tex acquired the Scragg 011 patent. The Barmag agreement has been reproduced in the Appendix since it is the only one of the three which deals with nothing except the manufacturing licensing arrangement which the Fifth Circuit has found to be illegal.

In each manufacturing licensing agreement, Lex Tex undertakes to grant a license under its patent rights to any customer (throwster) of the machinery manufacturer who wishes to have one. No license rights are granted to the manufacturer itself and the manufacturer obtains freedom from suit by Lex Tex only by reason of his throwster customer electing to take a license. To this extent, the designation "manufacturing license" is a misnomer. There are no restrictions in the agreements requiring the machinery manufacturer to sell only to Lex Tex licensees.[1]

[1] Such a restriction appeared in the Leesona Agreement of September, 1967, but became inoperative under the terms of the agreement before Leesona sold its first machine in 1968.

Lex Tex agrees to pay to the machinery manufacturer a specified percentage of the royalty received by Lex Tex from a licensed throwster on any output of the double heater machinery made by the particular manufacturer.

To date, Barmag has been the largest supplier of double heater machines to the United States trade with Scragg next and Lessona a poor third until it left the business entirely several years ago. No Barmag customer has ever taken a license from Lex Tex. Consequently, Barmag never qualified for any payment under its so-called manufacturing license agreement. Leesona was paid about $6,000 and Scragg about $600. The last of these meager payments was made in February, 1972. In the meantime, double heater machines valued well in excess of $100 million have been sold into the American textile trade.

The Lex Tex Litigation

By the end of 1970, a few throwsters were operating Leesona-made double heater machines under license from Lex Tex. Lex Tex received royalty payments of several thousand dollars from three or four operators of Leesona equipment, but even these were discontinued after the throwsters became embroiled with Leesona in the litigation of the single heater patents beginning late in 1969. Barmag and Scragg double heater machines, which later became predominate, were then almost unknown to the American trade.

In January, 1971, Lex Tex brought suit in the Southern District of Florida against two of its licensees, the respondents Universal Textured Yarns et al.[2] and Concordia Manufacturing Company.[3] Both companies were charged with breaching their license agreements by failing to pay royalty on the output of their Leesona-made double heater machines. The District Court's jurisdiction was based upon the diversity

[2]No. 71-83 (S.D. Fla.); 74-3696 (C.A. 5).

[3]No. 71-84 (S.D. Fla.); 74-3697 (C.A. 5).

provisions of Title 28 U.S.C. These agreements were of the kind exemplified by Exhibit 1 to the Barmag agreement (App. (App.).

In June, 1971, Celanese Corporation and Fibers Industries, Inc.[4] sued Leesona, Lex Tex and the Permatwist Company also in the Southern District of Florida for a declaratory judgment of patent invalidity, non-infringement and unenforceability with respect to both the single and double heater patents. Lex Tex counterclaimed for infringement of all three of its patents. Subsequently, Lex Tex filed suit based upon the diversity provisions of Title 28 U.S.C., in the Southern District of Florida against respondent Gold Mills, Inc.,[5] a licensee, and against others, based upon federal question jurisdiction under the patent laws, who were found to be infringing its patent rights in that District[6] . An action against the respondent Burlington Industries, Inc. for slander of title of Lex Tex's patent rights was based also on diversity jurisdiction of the District Court.[7] The Leesona and Lex Tex litigation was consolidated for pretrial proceedings by the Judicial Panel on Multi-District Litigation on March 22, 1972 pursuant to its opinion report at 341 F. Supp. 376.

In the course of the consolidated proceedings, respondent Universal Textured Yarns moved for a summary judgment that Lex Tex was misusing its patents. This motion was granted by the District Court and Lex Tex's appeal from the judgment is designated 74-3696 in the Fifth Circuit's opinion (App. 97a). Celanese Corporation and Fibers Industries, Inc. also moved for summary judgment that the double heater patents were unenforceable, at least up to the time they were transferred to Lex Tex. (App. 34a-35a) The District Court

[4]No. 71-1026 (S.D. Fla.); 74-3694 (C.A. 5); 75-2029 (C.A. 5). Fiber Industries, Inc. is a yarn producing subsidiary of Celanese Corporation.

[5]No. 72-941 (S.D. Fla.); 74-3699 (C.A. 5).

[6]Including the Respondents Hialeah Knitting Mills, et al. Nos. 71-385 (S.D. Fla.); 72-1643 (S.D. Fla.); 72-1656 (S.D. Fla.); 72-1657 (S.D. Fla.); 72-1720 (S.D. Fla.); and 72-1726 (S.D. Fla.). Consolidated on appeal in 74-3695 (C.A. 5).

[7]No. 72-940 (S.D. Fla.); 74-3698 (C.A. 5).

eventually granted this motion in its order of February 27, 1975, (App. 56a) and the judgment entered thereon became the subject of Lex Tex's appeal designated 75-2029 in the Fifth Circuit opinion (App. 85a).

The Fifth Circuit affirmed the District Court's judgment that the Lex Tex patents were unenforceable in an opinion filed November 5, 1976. (App. 78a)

The Fifth Circuit's opinion rejected or ignored all the grounds on which the District Court had based its two judgments but developed the new theory that the Lex Tex manufacturing license involved *per se* price fixing in violation of Section 1 of the Sherman Act.[8]

The Fifth Circuit rested its decision against Lex Tex upon this Court's explanation of its ruling in *United States v. Line Material Company*, 333 U.S. 287 at Page 315:

> "The mere fact that a patentee uses his patent as whole or part consideration in a contract by which he and another or other patentees in the same patent field arrange for the practice of any patent involved in such a way that royalties or other earnings or benefits from the patents or patents are shared among the patentees, parties to the agreement, subjects that contract to the prohibitions of the Sherman Act whenever the selling price for things produced under a patent involved, is fixed by the contract or a license authorized by the contract."

The Fifth Circuit obviously recognized that an impediment to applying this rule was the complete absence from the Lex Tex manufacturing license agreements of any fixed prices for double heater machines or anything comparable to the specified dollar amounts that were to be charged for their respective products by each of the parties to the *Line Material*

[8] This occurred in spite of the fact that in the course of ruling on the Celanese summary judgment motion the District Court held:

> "There is no evidence that Lex Tex, Ltd. has any illegal agreements which would be violative of Section 1 of the Sherman Act at the present time nor at any other time since its acquisition of the double heater patents in September of 1967. The Court determines this fact is immaterial." (App. 46a)

agreement. Thus the Fifth Circuit found what might be called a "constructive" *per se* price fix. It explained:

> "It is readily apparent that Lex Tex fixes prices for post-treating machinery in the same manner that Leesona fixes prices of single heater machinery. Here, as in the Leesona manufacturing license agreements, the machinery manufacturers are guaranteed under the license agreements that portion of the compensation for the machinery or servicing which is reflected in the royalty kickback* * * * * * In this manner, the Lex Tex royalty kickbacks to the machine manufacturers serve to fix the minimum price they receive for their machinery at a higher level." (App. 100a)

In an earlier portion of its opinion, the Fifth Circuit explains why the seemingly innocuous provision for payment of a royalty share to a machinery manufacturer who undertakes to supply and service equipment necessary to Lex Tex's licensing program is, in fact, a *per se* price fix:

> "By acting as a conduit of the royalties between the throwsters and the machinery manufacturers, Leesona [Lex Tex] insured that there could be no negotiation between the throwsters and machinery manufacturers concerning this major portion of the compensation received by the manufacturers for the machinery. Thus, by means of the royalty sharing arrangement between Leesona [Lex Tex] and the machinery manufacturers, the price of the machinery which the throwsters would have to pay was fixed." (App. 91a)

The keystone "fact" in the Fifth Circuit's reasoning is that the manufacturing license arrangement prevents:

> "negotiations between the throwsters and the machinery manufacturers concerning this major portion (the royalty share) of the compensation received by the manufacturers for the machinery." (App. 91a)

On this assumption of the Fifth Circuit moved on to its conclusion that:

> "the machinery manufacturers who participated in the scheme were protected against free competition and free bargaining in effecting their sales to throwsters." (App. 92a)

The record in this action flatly contradicts the keystone "fact" on which the Fifth Circuit based its ruling against Lex Tex. There is reproduced in the Appendix (App. 127a) a letter dated October 12, 1970 from Barmag to Celanese (FII) dealing with a very substantial purchase of double heater machinery which clearly reveals that the throwster and the machinery manufacturer have in fact negotiated between themselves concerning any royalty shares which the manufacturer might receive from Lex Tex. It states:

> "We furthermore agree that FII is to receive whatever part of the royalty fee is being paid to Barmag, if any." (App. 127a)

A memorandum from the files of Celanese identified at the deposition of Celanese's Attorney Steven Murphy (Exhibit 19) reports on conversations with Scragg concerning Scraggs arrangements with Lex Tex and Scragg's willingness to negotiate with throwsters concerning the royalty share payable to it by Lex Tex (App.). It states:

> "Scragg would be prepared to rebate an unspecified percentage of its return from Leesona/Lex Tex to equipment purchases."* * * * * I inquired whether the arrangement with Lex Tex took account of the possible invalidation of any of the Lex Tex patents, pointing out that Scraggs ability to rebate in larger or smaller amounts might depend upon whether its patent, or the Stoddard/Surn patents were invalidated. This along with other specifics of the rebate question were left over for actual negotiation of a purchase." (App. 129a, 130a)

Further, a letter produced by Barmag (App. 132a) during discovery proceeding reveals that Barmag was negotiating with all its throwster customers regarding the Lex Tex payment, if any, as early as 1969. A letter dated June 5, 1969 from the American subsidiary to the German parent company states:

> "As of today, we tell the prospective client that neither we nor he is obliged to report a machine sale to Lex Tex and that in case he has to enter into an agreement with Lex Tex, we would give him a rebate on the royalty to a level not less favorable than what he would have to pay to ARTC/DM, however not to exceed 25% of the Lex Tex royalty." (App. 132a)

This evidence was not brought to the Fifth Circuit's attention, nor to the attention of the District Court, simply because its relevance to any theory of misuse or price fixing did not appear until explicated in the Fifth Circuit's opinion.

REASONS FOR GRANTING THE WRIT

I.

THIS COURT SHOULD EXERCISE ITS POWER OF SUPERVISION OF THE LOWER FEDERAL COURTS IN THE INTERESTS OF COMMON FAIRNESS AND JUSTICE WHENEVER A JUDGMENT OF THE LOWER COURTS DEPRIVES A LITIGANT OF VALUABLE RIGHTS WITHOUT GIVING HIM A DAY IN COURT ON FACTS ESSENTIAL TO THAT JUDGMENT, PARTICULARLY WHERE THE JUDGMENT ARISES OUT OF SUMMARY PROCEEDINGS.

We have shown above by quoting from three documents picked from the massive record[9] of this case that the Fifth Circuit's assumption that the Lex Tex manufacturing license prevents negotiation between throwster and manufacturer concerning the Lex Tex payment to the manufacturer is wholly erroneous. In fact, we know of no evidence in the record which supports the Fifth Circuit's assumption.

It is evident that Lex Tex has not had an opportunity in these summary proceedings below to dispute the Fifth Circuit's keystone assumption since the legal theory which makes it relevant first appeared in the Fifth Circuit's decision. Yet that assumption is the keystone to the Fifth Circuit's reasoning to the conclusion of *per se* price fixing.

[9] More than 3000 Docket Entries, several million documents inspected, tens of thousands of pages of deposition testimony, and more than a hundred of deposition witnesses.

If the Fifth Circuit's discussion of the facts and law which depend upon this keystone assumption are delineated from the opinion, nothing of substance remains to support the charge of price fixing. Consequently, it must be said that the anomalous procedure in the Court below has resulted in a judgment taking valuable rights from Lex Tex without affording it a day in Court to contest the facts which were essential to that judgment.

II.

THE COURT OF APPEALS HAS DECIDED AN IMPORTANT MATTER CONCERNING *PER SE* PRICE FIXING AND SUMMARY JUDGMENT PROCEDURES IN A WAY WHICH CONFLICTS WITH THE CONTROLLING DECISIONS OF THIS COURT.

We believe that the Fifth Circuit's purported application of this Court's ruling in the *Line Material* case ignores the factual background and the reason for the rule in *Line Materials* to the extent that that it has actually created a conflicting rule.

The *Line Material* case involved a cross-licensing agreement between two competing manufacturing companies, each of which was marketing a line of circuit breakers. The cross-licensing agreement actually specified the dollar price at which each company would sell its products, and the same price fixing provisions also appeared in sub-licenses issued to other competing manufacturers. This arrangement was held to be a *per se* violation of Section 1 of the Sherman Act. This Court explained:

> "The unlawful element is the use of the control that such cross-licensing gives to fix prices." 333 U.S. at 315.

The Fifth Circuit has now extended the rule of *Line Material* to cover the Lex Tex manufacturing licenses, which as explained above, are not cross-licenses at all, but merely a unilateral undertaking by Lex Tex to grant a license to

customers of the machinery manufacturer if the customer should wish to have one. Accurately speaking, this is not even a unilateral license. By refering to the Appendix (App. 119a) the Court may determine for itself that Barmag clearly does not have a license to make, use or sell double heater machines. Barmag escapes infringement claims by Lex Tex only with respect to machines on which its customers have taken a license from Lex Tex. All Barmag machines have been sold to throwsters without a license from Lex Tex and, consequently, Barmag is subject to infringement suit by Lex Tex with respect to all machines which it has sold in the United States. That is not the posture of a "licensee." On the other hand, Barmag does not purport to grant any kind of license to Lex Tex under Barmag patents. Consequently, the Fifth Circuit has extended the *Line Material* case to a situation where no cross-license is involved. Lex Tex's simple undertaking to grant a standard throwster's license to Barmag's customers if asked to do so is no control at all over Barmag or its customer, and in no manner comparable to "the control that such cross-licensing gives to fix prices."

Furthermore, Lex Tex is not a competitor of Barmag or any other machinery manufacturer. Lex Tex sells no machinery or any other items or services on which a price might be "fixed" by agreement with Barmag or others, yet the Fifth Circuit has extended the *Line Material* case to cover this situation, apparently without notice of this Courts frequent reference in the *Line Material* opinion to the competitive posture of the parties. It is also notable that the Fifth Circuit has extended the *per se* rule of the *Line Material* case to the situation where no specified price, or anything functionally comparable is included in the agreement.* Where

*This appears to conflict with the Fourth Circuits ruling in *Westinghouse Elec. Corp. v. Bulldog Electric Products Company*, 179 F.2d 139, 145 (C.A. 4, 1950), which involved agreements between competing manufacturers which called for royalty sharing. The agreements included a price maintenance term which fixed the actual resale price of the manufactured articles. The Court said:

> "When the price fixing feature is eliminated from these agreements as was done by the letters of April 9, 1948, nothing is left of which illegality may be predicated; since there is nothing illegal in splitting the royalties in consideration of the non-assertion agreements, when this is not accompanied by an agreement fixing prices." (At 145).

then is there an agreement or conspiracy to fix prices of double heater machinery? Also, there is no evidence that the condemned royalty sharing provision has ever had any practical or material effect whatsoever on the manner in which the throwster and the machinery manufacturer conducted their bargaining or upon the bargains ultimately reached by them. This record is, we believe, totally devoid of any justification for the mutations in the rule of the *Line Material* case which are elaborated by the Fifth Circuit.

We also believe that the Fifth Circuit has ignored well settled rules of this Court with respect to the inappropriateness of summary judgment procedures in complicated anit-trust cases. This Court has said:

> "We believe the summary procedures should be used sparingly in complex anti-trust litigation where motive and intent play leading roles, the proof is largely in the hands of the alleged conspirators, and hostile witnesses thicken the plot." *Poller v. Columbia Broadcasting System*, 368 U.S. 464, 472-473 (1962).

We do not have a situation as in *White Motor Co. v. United States*, 372 U.S. 253, 259-260 (1963) in which the Court spoke of dealing with a well developed area of law and a factual situation turning on documentary evidence. What we have said above indicates that the Fifth Circuit based its rule of *per se* price fixing on "factual" matters which were needed, in its view, to rationalize a royalty sharing provision into a price fix. Consequently, it appears that this case is not a proper one for summary judgment under the applicable decisions of this Court.

CONCLUSION

For the foregoing reason, we respectfully request that this Petition be granted.

Respectfully submitted,

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APPENDIX 1

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COMMERCE AND TRADE

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CHAPTER 1–MONOPOLIES AND COMBINATIONS IN RESTRAINT OF TRADE

§ 1. Trusts, etc., in restraint of trade illegal; exception of resale price agreements; penalty

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal: *Provided*, That nothing contained in sections 1 to 7 of this title shall render illegal, contracts or agreements prescribing minimum prices for the resale of a commodity which bears, or the label or container of which bears, the trademark, brand, or name of the producer or distributor of such commodity and which is in free and open competition with commodities of the same genreal class produced or distributed by others, when contracts or agreements of that description are lawful as applied to intrastate transactions, under any statute, law, or public policy now or hereafter in effect in any State, Territory, or the District of Columbia in which such resale is to be made, or to which the commodity is to be transported for such resale, and the making of such contracts or agreements shall not be an unfair method of

competition under section 45 of this title: *Provided further*, That the preceding proviso shall not make lawful any contract or agreement, providing for the establishment or maintenance of minimum resale prices on any commodity herein involved, between manufacturers, or between producers, or between wholesalers, or between brokers, or between factors, or between retailers, or between persons, firms, or corporations in competition with each other. Every person who shall make any contract or engage in any combination or conspiracy declared by sections 1 to 7 of this title to be illegal shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding one million dollars if a corporation, or, if any other person, one hundred thousand dollars or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.

As amended Dec. 21, 1974, Pub. L. 93-528, §3, 88 Stat. 1708.

1974 Amendment. Pub. L. 93-528 substituted "a felony, and, on conviction thereof, shall be punished by fine not exceeding one million dollars if a corporation, or if any other person, one hundred thousand dollars, or by imprisonment not exceeding three years" for "a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year."

Legislative History. For legislative history and purpose of Pub. L. 93-528, see 1974 U.S. Code Cong. and Adm. News, p. 6535.

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APPENDIX 2
In re YARN PROCESS PATENT VALIDITY AND ANTI-TRUST LITIGATION.

M.D.L. No. 82.

United States District Court,
S. D. Florida.

April 25, 1974.

Supplemental Opinion Feb. 27, 1975.

Edwards, Irons, Irons, Sears & Santorelli, Washington, D. C., McNeill Smith, Smith, Moore, Smith, Schell & Hunter, Greensboro, N. C., William W. Beckett, Schuyler, Birch, Swindler, McKie & Beckett, William K. West, Jr., Cushman, Darby & Cushman, Washington, D. C., David Klingsberg, Kaye, Scholer, Fierman, Hayes & Handler, New York City, Paul B. Bell, Parrott, Bell, Seltzer, Park & Gibson, Charlotte, N. C., Anthony F. Phillips, Willkie, Farr & Gallagher, New York City, Fowler, White, Humkey, Burnett, Hurley & Banick, P. A., Miami, Fla., Gerald Kurland, Cleveland, Ohio, Friedman, Britton & Stettin, Miami, Fla., David Rabin, Greensboro, N. C., John J. McAleese, Jr., Cunniff, Bray & McAleese, Plymouth Meeting, Pa., William R. Alvin, Miami, Fla., Hugh Latimer, Bergson, Brokland, Margolis & Adler, Kirkland, Ellis & Rowe, Washington, D. C., S. M. Clark, Akron, Ohio, Alvin K. Hellerstein, Strook & Strook & Lavan, New York City, Walton, Lantaff, Schroeder, Carson & Wahl, Laurence A. Schroeder, Mershon, Sawyer, Johnston, Donwody & Cole, Aubrey V. Kendall, Miami, Fla., Swan, Keeney, Jenckes & Asquith, Harry W. Asquith, Providence, R. I., Robert G. Lubbers, Andrews, Lubbers & Obrig, Robert F. Conrad, Fort Lauderdale, Fla., Frederick C. Tecce, Cuniff, Bray & McAleese, Plymouth Meeting, Pa., Michael J. Striker, Striker, Striker, Contler & Stenby, New York City, Daniel Neal Heller, Heller & Kaplan, Daniel Neal Retter, Miami, Fla., Ralph C.

Nelson, Hialeah, Fla., Davis W. Duke, Jr., McCune, Hiaasen, Crum, Ferris & Gardner, Fort Lauderdale, Fla., Seymour D. Lewis, Rosenman, Colin, Kaye, Petschek, Freund & Emil, New York City, Blum, Moscovitz, Friedman & Kaplan, New York City, John F. Leviness, III, Otterbourg, Steindler, Houston & Rosen, New York City, Stanley Arthur Beiley, Blackwell, Walker, Gray, Powers, Flick & Hoehl, Smathers & Thompson, Bradford, Williams, McKay, Kimbrell, Hamann & Jennings, Charles A. Kimbrell, Miami, Fla.

ATKINS, District Judge.

During the pendency of discovery proceedings in these 51 actions consolidated in the United States District Court for the Southern District of Florida, certain summary judgment motions have been filed and briefed by various parties opposing the patents here in suit. Following the conclusion of the bulk of the discovery in December 1973, the patentee parties were requested to respond to those motions in an attempt to decide them in an orderly fashion before a final trial date is set. The responses so requested have been filed with the Court and between April 11 and April 18 the Court has heard some twelve hours of argument on the various motions. The time for decision has arrived and this Order will attempt to set forth the Court's rulings and reasonings in a brief, but hopefully adequate fashion. The history of this litigation has previously been discussed by the Judicial Panel on Multidistrict Litigation in its opinion ordering the transfer, *In Re Yarn Processing Patent Validity Litigation,* 341 F.Supp. 376 (Jud.Pan.Mult.Lit.1972), and in this Court's orders published at 360 F.Supp. 74 (S.D.Fla.1973) and 56 F.R.D. 648 (S.D.Fla.1972). To the extent the background information contained therein is helpful to an understanding of this Order, they are incorporated by reference. Additionally, the Court reviewed the law relating to Rule 56 of the Federal Rules of Civil Procedure before rendering a summary judgment of invalidity of the single heater patents *In Re Yarn Processing Patent Validity Litigation,* 360 F.Supp. 74, 78-79 (S.D.Fla.1973), and that law

is equally applicable here and need not be repeated. The motions will be discussed below in the order in which they were argued, although that order might not necessarily be the most logical.

I.

Celanese and FII Motion for Partial Summary Judgment that Double Heater Patents 3,077,224, 3,091,912 and 3,472,011 are Unenforceable in the Hand of Defendant Lex-Tex

This motion seeking dismissal of the patent owner Lex-Tex's counterclaims for infringement against Celanese and FII was filed on November 26, 1973 in case number 71-1026-CIV-CA, a part of MDL 82. On December 3, 1973, Sauquoit and Rohm & Haas, defendants in case under 72-938-CIV-CA, joined in the Celanese motion to the extent that it sought a declaration that the '912 patent was unenforceable; all of the Celanese pleadings relating to this motion were adopted in that joinder.

The motion as filed relies on Section 7 of The Clayton Act, 15 U.S.C.A., §18, which provides in part:

> No corporation engaged in commerce shall acquire, directly or indirectly, the whole or any part of the stock or other share capital and no corporation subject to the jurisdiction of the Federal Trade Commission shall acquire the whole or any part of the assets of another corporation engaged also in commerce, where in any line of commerce in any section of the country, the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly.

Lex-Tex, pursuant to a transfer from Leesona Corporation, acquired the '912 and '724 patents in 1967. In June of 1971 Lex-Tex acquired from Ernest Scragg & Sons, Ltd., of England, the United States Patent No. 3,472,011.[1] All three of these patents were described in the Agreement of June 16, 1971 as "relating

[1] For the purpose of deciding this motion it will be assumed that the '011 patent was owned by Ernest Scragg & Sons, Ltd., because Lex-Tex has not contended otherwise. However, on the face of the Agreement it provides that "Ernest Philips (illegible) Scragg is the owner of" the '011 patent.

. . . to machines, apparatus and methods for the production of modified torque stretch yarn."

[1] It is the contention of Celanese that the acquisition of the '011 patent by Lex-Tex, a corporation engaged in commerce and subject to the jurisdiction of the FTC, 15 U.S.C.A., §21, was the acquisition of "any part of the assets [patents] of another corporation engaged also in commerce [Scragg]" that had as a necessary effect the lessening of competition "in any line of commerce [licensing of the three double heater patents]" "in any section of the country [the entire United States]." Thirteen material facts are recited in the moving papers, with the assertion that they are not in dispute. Only fact number four is really in dispute and that is because it alleges that an important purpose of the acquisition of the '011 "was to significantly lessen competition between that patent" and the '912 and '724 patents. As stated, the question is factual, but immaterial. The statute is concerned with the result of the acquisition, not the purpose. If the purpose was to substantially lessen competition, but no possibility of such a lessening existed, the statute would not be violated.

Lex-Tex, in resisting the granting of the motion, recites two facts that are allegedly material and evidently in dispute. Only the first need concern the court here.[2]

LEX-TEX FACT NO. 1

There never was any possibility of a competitive licensing program between Lex-Tex and Scragg asto '912, '724 and '011

This material fact in dispute derives from the Lex-Tex assertion that the '011 patent on the one hand and the '912 and '724

[2] The second fact states that the three patents are licensed to the trade independently or jointly, depending on wishes of the licensee. This fact might be material if Celanese was alleging a tying violation of Section 1 of the Sherman Act, 15 U.S.C.A., §1, which, of course, it is not. Unfortunately, the bulk of the Lex-Tex brief addresses itself to the Sherman Act and its application to these facts—a non-existent issue.

patents on the other are blocking, or complementary, patents. A definition of "blocking" patents was provided by the Supreme Court in *Standard Oil Co. v. United States,* 283 U.S. 163, 171, 51 S.Ct. 421, 424, 75 L.Ed.926 (1931):

> . . . An interchange of patent rights and a division of royalties according to the value attributed by the parties to their respective patent claims is frequently necessary if technical advancement is not to be *blocked* by *threatened* litigation. [5]

[5] This is often the case where patents covering improvements of a basic process, owned by one manufacturer, are granted to another. A patent may be rendered quite useless, *or "blocked"*, by another unexpired patent which covers a vitally related feature of the manufacturing process. . . . (emphasis supplied) [3]

If the patents could be considered "blocking" within the meaning of this definition, Lex-Tex argues, there could be no competition under Clayton Act section 7 to be lessened by the acquisition.

No authority has been cited by either party to this motion in an effort to show whether the classifying of several patents as either competing or blocking is a factual determination. After this question was posed by the Court, Celanese took the position in oral argument that if the determination was factual, the Agreement between Lex-Tex and Scragg virtually admitted that the two would have been competitors in the licensing of double-heater technology—why else would Lex-Tex agreem to a rebate of 12½% of the royalties? [4] That reduction is too facile and does not necessarily follow. If that reasoning were correct, the only blocking patents would be those that were given away by their owners. Celanese has also argued that if the categorization of the three patents as blocking requires a factual decision, Lex-Tex has failed to show any underlying facts that support is position that the

[3] Another definition of a "blocking" patent is contained in *International Manufacturing Co. v. Landon, Inc.*, 336 F.2d 723, 731 (9 Cir. 1964), *cert. denied,* 379 U.S. 988, 85 S.Ct. 701, 13 L.Ed.2d 610 (1965):

> . . . If we had a case where a licensee could produce a commercially acceptable product utilizing one patent but not infringing the others in the package, then clearly we would not have a case involving blocking patents.

[4] Hearing on Motions for Summary Judgment, April 11, 1974, at p. 8.

patents were, and are, blocking. An affidavit of Nicholas J. Stoddard, one of the Permatwist partners, was relief on by Lex-Tex for the proposition that "the operation of any of these machines [Leesona, ARCT, Barmag and Scragg] to produce a set yarn would infringe claims of each of '724, '912 and '011." Paragraph 27 of that affidavit stated: " '912, '724 and '011 are complimentary [sic] blocking patents." This affidavit was attacked on several grounds under Rule 56, and Celanese feels that it sould not be used for any purpose.

[2,3] Counsel for Lex-Tex argued that a decision relating to the blocking or competitive character of several patents was factual in nature and should not be decided on summary judgment. No case law was cited to support this conclusion however, Nevertheless, it is clear that summary judgment should only be granted when the material facts are not in dispute *and* the moving party is entitled to judgment as a matter of law. Even if the characterization of the relevant patents as blocking or competing presents only a question of law, and this is by no means sure at this point, the Court does not feel competent on this record to make that decision. The one affidavit submitted with these pleadings only makes the statement in the most general way without even elucidating the underlying premises for the affiant's conclusion that the patents are "blocking."

[4] This motion has served a useful purpose, despite the necessity for its being denied at this point. The Court is convinced that the only issue truly in dispute is the question of whether the patents are blocking or competing. If they are determined to be competing, whether by the finder of fact or the Court, as the case may be, the tendency to lessen competition in the relevant line of commerce appears to be established per force by the fact that the assets involved are patents—by definition a monopoly. [5]

[5] Lex-Tex raised two issues that should be mentioned in passing. The assertion that the misuse claim by Celanese should not be heard by the Court becaused it has previously been waived is not persuasive. The pleadings support the contention, and that is that. Also, Lex-Tex should be advised not to waste time advancing its argument that the acquisition of the '011 patent was in fact procompetitive.

. . . because there in one hand was [sic] all patents which affected this industry . . . and the opportunity [was] there for the industry at large to come to one

(continued)

II

Celanese and FII Motion for Partial Summary Judgement Dismissing the Lex-Tex Counterclaim for Infringement of Patent 3,091,912

As with the earlier motion, this request for a partial summary judgment was filed by Celanese in case number 71-1026-CIV-CA on November 26, 1973. Twenty-six materal facts are recited by Celanese to support the granting of this motion, and Lex-Tex has, in one form of another, denied twelve of those facts. In addition, Lex-Tex has raised a possible fact question relating to the intention of the parties.

To summarize briefly, Celanese argues in its motion that an interference was declared in the Patent Office between one of its patent applications and the Leesona patent 2,864,229. In order to resolve the interference quickly, the parties entered into an agreement that provided for a determination of invention priority by counsel, with the loser stipulating to an abandonment of the conflicting claims. Celanese prevailed, and Leesona disclaimed the portions of the '229 patent that were the subject of the interference. Additionally, in the second article of the agreement Leesona granted to Celanese a royalty free, irrevocable, non-exclusive license to three categories of claims:

1. The claims which comprised the counts of the interference;
2. Any patentable claim that is supported by both the patent ('229) and the application, and made in at least one; and
3. Claims of any other patent which Leesona presently has licensing rights or which may be granted in any patent based on inventions reduced to writing insofar as such claims

(footnote continued from proceeding page)

person who had the disc package and know that they could undertake production without concern for being sued for infringing patents.

As the Supreme Court said in *United States v. Masonite Corp.*, 316 U.S. 265, 281, 62 S. Ct. 1070, 1079, 86 L.Ed. 1461 (1942), "[i]t is outside our competence to inquire whether the result was or was not beneficient or whether the evil was or was not realized."

would restrict the right of Celanese to utilize the inventions which are covered by the above two categories.

Lex-Tex in this action has asserted by way of counterclaim that the operation by Celanese of the Barmag machine infringes its patent number 3,091,912. Celanese, after noting that the '912 patent derives from an application filed by Leesona before the date of the agreement above, urges that because (1) the inventor has previously acknowledged that the sole patentable disclosure in claim 1 of the '229 patent is the spaced guide means employed above and below the heater and (2) that claim was part of the interference, it has, under the first portion of the agreement, a royalty free license to practice the use of the spaced guide means used above and below the heater. The '912 patent should not be asserted against Celanese, it is argued, because the third ortion of the agreement prevents the use of the '912 patent to restrict the right of Celanese to use the invention disclosed in claim 1 of the '229 patent, to wit: the spaced guide means.

Celanese also advances the contention that the second portion of the agreement summarized above also applies to these facts to prevent the assertion of the '912 patent against its use of the Barmag machines. The '229 patent, in lines 35 to 40 of column 2, incorporates the disclosure of the '912 patent (then application number 653,953). Because the third claim of the Celanese '552 patent (the patent resulting from a continuation-in-part application of the original application that was the subject matter of the interference) is practiced on the Barmag machines, and the inventive aspect of that claim is supported by both claim 3 of the '552 patent and the '912 patent, [6] and claimed by the '912 patent, [7] the practicing of claim 3 of the '552 patent on the Barmag machine is immune from attack by Lex-Tex on the basis of '912 infringement. The third portion of the agreement provides for as much.

[6] Lex-Tex asserts infringement and must therefore concede coverage. The incorporation of the '912 patent by reference into the '229 patent brings this motion in the preview of the second portion of the agreement.

[7] Obviously the use of the Barmag machine in a way that would otherwise infringe the '912 patent must be claimed by that patent.

Lex-Tex in the opposition memorandum has challenged two facts posited by Celanese on the ground that the testimonial matter relied on is incompetent. As to others, it has relied (1) on the fact that the '229 patent disclosed an invention that consisted of a down twister that used spaced guide means, and that therefore only a down twister was meant to be covered by the agreement, and (2) on the argument that the third claim of the '552 patent is not supported by the '229 patent. Accordingly, we have the two grounds of the Celanese motion resisted as follows:

(1) As to the Celanese contention that it is to have royalty free use of the invention in claim 1 of the '229 patent (the spaced guide means), Lex-Tex agrees, but only insofar as they are used on a down twister machine. The Barmag machine is a false twister and not a down twister; and

(2) The argument by Celanese that the Barmag machine practices claim 3 of the '552 patent, a claim that is supported by the '552 patent and the '229 patent (with '912 incorporated by reference) and claimed by the '912 patent, is challenged on the ground that the '229 patent does not support the claim.

A. As to the first objection, a decision must be made as to whether the agreement in granting a "royalty free . . . license under the claims which compose the counts of the interference" contemplated the spaced guide means independently, since they were the only new aspect of the first claim in '552, or whether the claim covered only spaced guide means used in conjunction with a down twister. Lex-Tex countered the contention that the spaced guide means were in essence the "invention" of claim 1 of the '229 patent merely by arguing that Mr. Seem's testimony to that effect quoted by Celanese was incompetent. This of course, is not a proper objection in this context. Either Mr. Seem said what was quoted in fact 9.1 or he didn't. It is the interpretation of the meaning of that quote that should be argued by Lex-Tex in the memorandum, but that was not done. For the purposes of this motion, then, the Court will assume that the quote contained in fact 9.1 is accurate. That still leaves us with the need to interpret it.

Mr. Conrad argued in the hearing that claim 1 of the '229 patent must be construed to include the use of down twister with the spaced guide means.

The claim in question as your Honor will recognize from reading it is a combining claim. And the fact that Mr. Seem added one element to make the new combination, which is the subject matter of the claim, doesn't mean that the claim is dependent or that that claim really covers, as our opponent suggests, just the feature which the inventor added to the prior art combination. The subject matter of the claim is, of course, the complete combination set forth in the claim.

Now this is true even in any case where the inventor assembles old parts to make a new combination. For example, it is perfectly clear that Claim One could not be asserted against any party who is simply using spaced guide means on either side of a heater, in, for example, a machine such as up-twisters, which is a machine that is the basic character of the false twist equipment. That claim could not be asserted against spaced guide means on either side of the heater on an up-twister. Claim I and other claims which were in the interference are all specifically limited to arrangements on down-twisters. And the language of the claim makes that perfectly clear.

For example, if you look at the language of Claim I you see reference to a flier in combination with the take-up mechanism called the twister spindle.

Now that particular bit of mechanism, as anyone who is familiar with the technical machinery knows, is something that is only associated with the kind of a take-up mechanism one has on a down-spinner or a down-twister.

Now, since the claims in the interference were all limited to that kind of a machine, that is a machine which involved the down-twister elements in combination with the heater and spaced guide means, those claims are not relevant to anything which Celanese or FII are now doing. For example, these features of the claims makeit clear that Celanese in operating its present equipment is not operating under the X-type of claim of '229 patent. Because there are not twister spindles on the

Barmag machines now being operated by Celanese and FII. There are no fliers associated with the take-up mechanism. All is specified in Claim I of that patent. [8]

The response of Celanese to this contention was to refer to yet another instance when Leesona contended in prior litigation that the guide means were "the sole feature of the claim combination which the patentee contributed to the prior act." [9] This is exactly what Mr. Seem was quoted as having admittedin fact 9.1 and Lex-Tex announced it does not dispute the statement, [10] only its interpretation. The question that must be answered is whether the granting of a royalty free license to practice a combination invention that combines other articles old in the art with one new item includes the use of the new item used separately or only the combination used as a whole? The Court has been directed to no case law that would provide an answer to that question. Logically it would seem that if the user of the new item(i. e., the spaced guidemeans) employed it outside the context of the combination, and he could be held to have infringed the combination patent by that use, then the license should also be construed to cover the new item so employed. If the coverage under the license is found, then the agreement here by its own items prevents the assertion of the '912 patent against Celanese in a way which would rerict the right of Celanese "to utilize the inventions which constitute the subject matter of the claims which comprise the counts of interference. . ."

[5,6] Conversely, if a combination that combines articles old in the art with one new item is patented, and the use of the new item out of the context of the combination would not be held to infringe that combination patent, then the license granted under that combination patent would not necessarily include the use of the new item so employed. If the license did not cover the use of that item alone, then the agreement entered into between Celanese and Leesona would provide no protection to Celanese for the

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8 Hearing on Motions for Summary Judgment, April 11, 1974, at 61-66.

9 *Id.* at 72.

10 *Id.* at 61.

operation of a machine that would otherwise infringe that '912 patent, despite the fact that the machine also uses the new item (i. e., spaced guide means) as an incident to its operation.

The answer to the question posed above is expressly answered by the Supreme Court in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 528, 92 S.Ct. 1700, 1707, 32 L.Ed.2d 273 (1972), *rehearing denied,* 409 U.S. 902, 93 S.Ct. 94, 34 L.Ed.2d 165:

> We cannot endorse the view that the "substantial manufacture of the constituent parts of [a] machine" constitutes direct infringement when we have so often held that a combination patent protects only against the operable assembly of the whole and not the manufacture of its parts. "For as we pointed out in *Mercoid v. Mid-Continent Investment Co.* [320 U.S. 661, 676, 64 S.Ct. 268, 276, 88 L.Ed.376] a patent on a combination is a patent on the assembled or functioning whole, not on the separate parts." *Mercoid Corp. v. Minneapolis-Honeywell Regulator Co.,* 320 U.S. 680, 684, 64 S.Ct. 278, 280, 88 L.Ed. 396 (1944). See also *Leeds & Catlin Co. v. Victor Talking Machine Co.,* 213 U.S. 301, 29 S. Ct. 495, 53 L.Ed. 805:
>
> "A combination is a union of elements, which may be partly old and partly new, or wholly old or wholly new. But whether new or old, the combination is a means—an invention—distinct from them." *Id.*, at 318, 29 S.Ct., at 500.
>
> . . . . . .
>
> "[O]ne element is not the combination. Indeed, all of the elements are not. To be that—to be identical with the invention of the combination—they must be united by the same operative law." *Id.*, at 320, 29 S.Ct., at 501.

And see Brown v. Guild, 23 Wall. 181 [90 U.S. 181], 23 L.Ed. 161 (1874). In sum,

> "[i]f anything is settled in the patent law, it is that the combination patent covers only the totality of the elements in the claim and that no element, separately viewed, is within the grant." *Aro Mfg. Co. v. Convertible Top Replacement Co.,* 365 U.S. [336], at 344, 81 S.Ct. [599], at 604 [5 L.Ed.2d 592].

In view of the fact that the user of one item of the combination would not be considered an infringer of the patent, a license granted under a combination patent would not necessarily include the independent use of that one item. That being the case, the assertion by Leesona of the '912 patent against Celanese for the operation of the Barmag machine that employs one item of the combination patent cannot be construed as restricting the utilization of the combination license. As to that ground, the motion for partial summary judgment must be denied.

B. As the second ground for granting this motion, Celanese has argued that:

(1) The Barmag machine practices claim 3 of the '552 patent;
(2) Claim 3 of the '552 patent is supported by both application 376,434 and the '229 patent (as it incorporates the '912 patent);
(3) The use of the Barmag machines is claimed by the '229 patent (as it incorporates the '912 patent),

thereby allowing it a royalty free license to use the Barmag machines based on the second portion of Article II of the agreement. In order to prevail on this argument Celanese has supported point 1 in its fact 10, point 2 in facts 10.1, 10.1.2 and 10.2 and point 3 in fact 10.2.1.

[7] In response to this methodical attack, Lex-Tex denied fact 10 based on a mistaken assumption as to what it purports to state; denied fact 10.1 because the supporting documents were not attached to the moving papers; denied fact 10.1.2 on the basis that the document being interpreted speaks for itself; alleged that fact 10.2 is immaterial, irrelevant and incompetent; and construed fact 10.2.1 as a *non sequitur.* The weak links in the chain of logic fashioned by Celanese in this part of the motion are:

1) The statement that the Barmag machine practices claim 3 of the '552 patent; and
2) The statement that the process defined by claim 3 of the '552 patent is claimed in the '229 patent.

As to the first point, fact 10 alleged precisely that, but Lex-Tex denied that fact while apparently under the impression it said something else. In oral argument Mr. Conrad, an owner Lex-Tex, stated that

> . . . it is far from clear, certainly from anything in this record, and as a matter of fact, that the Barmag machine presently operated by Celanese and FII, are in fact covered by Claim III of the '552 patent. [11]

Mr. Irons' response was to the point:

> The final paragraph of the affidavit of Mr. Schaeffer, which is unchallenged, says that [;] it uses the language of Claim III. . . . thereis an unchallenged affidavit showing on personal knowledge in my opening papers which shows just that. [12]

Even the affidavit of Mr. Stoddard does not refer to this fact, so based on the Schaeffer affidavit it will be deemed established.

As to the assertion that the process defined by Claim 3 of the '552 patent is supported by the '229 patent, Celanese relies on those cases which hold that "the disclosure in a patent application may be deliberately supplemented or completed by reference. . . to disclosure in earlier or concurrently filed copending applications." *Application of Lund,* 376 F.2d 982, 989, 54 C.C.P.A. 1361 (1967).

> . . . As the expression itself implies, the purpose of "incorporation by reference" is to make one document become a part of another document by referring to the former in the latter in such a manner that it is apparent that the cited document is part of the referencing document as [if] it were fully set out therein.

376 F.2d at 989. It will be recalled that Lex-Tex made no specific denial of the effect of such incorporation, but only noted that the document would speak for itself. Had it wanted to, Lex-Tex could have cited *Lund* for the proposition that "the court . . . did not intend to imply that *any* manner of reference to an earlier application was sufficient to incorporate the entire disclosure or any part thereof by reference into the patent." 376 F.2d at 990. Although the Court in *Lund* held that the mere reference to an abandoned application from which the present application was a continuation-in-part was "not sufficient to incorporate the

11 *Id.* at 63.

12 *Id.* at 70.

description of his earlier application into the patent," the '229 patent contains much more. Lines 35-40 in column 2 read as follows:

> . . . The invention has particular utility in practicing the methods disclosed in the copending U.S. patent applications of Stoddard and Seem, Serial Number 401,803, filed January 4, 1954, now Patent Number 2,803,108, and Serial Number 653,953, filed April 19, 1957. [Now Patent 3,091,912].

It is the Court's opinion that no factual analysis is necessary—as a matter of law the '229 patent incorporates the disclosure of the '912 patent. Accordingly, the '229 patent as read supports the third claim of the '552 patent. All the other premisds necessary to justify the granting of a summary judgment having been complied with, the motion is granted. [13]

III

New York Throwsters Motion for Summary Judgment that Leesona's Manufacturing License Agreements Violated Section 1 and 2 of the Sherman Act, that Treble Damages are Appropriate, and that the Single Heater and Spindle Patents Have Been Misused

The New York Throwsters filed this summary judgment motion on November 28, 1973 on behalf of the twenty-four consolidated cases transferred to this Court from the Eastern District of New York in which they are the plaintiffs, as well as the one case from the same jurisdiction in which they are the defendants. As the title aboveindicates, it challenges the continuing enforceability of the three single heater patents ('105, '108 and '109) and the three high speed Hilbert spindle patents ('086, '247 and '218), as well as the legality, on antitrust grounds, of certain manufacturing licenses entered into between Leesona and other texturizing

13 The reliance by Lex-Tex on a factual dispute as to the intention of the parties to the agreement is misplaced. The intention of the parties has been determined from words of the agreement itself.

machinery manufacturers. This motion is supplemented by a motion from Universal Textured Yarns, filed in case number 72-556-Civ-CA on December 6, 1973, challenging in addition the enforceability of the double heater patents ('724, '912 and '011). Celanese and FII earlier moved in case 71-1026-Civ-CA for a partial summary judgment (1) declaring illegal under the Sherman Act certain agreements between Permatwist and Leesona, entered into in 1954, 1958 and 1960; and (2) holding that the patents subject to the provisions of those agreeements to be unenforceable, to wit: the single heater patents, the high speed Hilbert spindle patents, and two of the double heater patents ('724 and '912).

As an additional matter of interest, the New York Throwsters motion has been adopted by Celanese in case 71-1026-Civ-CA (adding the '724 and '912 double heater patents) together with Sauquoit and Rohm & Haas in case numbers 72-563-Civ-Ca and 72-938-Civ-CA (adding the '912 double heater patent). The Universal Textured Yarns' motion was also joined in by Sauquoit and Rohm & Haas in case numbers 72-563-Civ-CA and 72-938-Civ-CA, as well as by Concordia Manufacturing in case number 71-84-Civ-Ca. The Celanese motion was joined in by Sauquoit and Rohm & Haas, Concordia Manufacturing and Universal Textured Yarns. Unfortunately, the memoranda submitted by the various parties to these interrelated motions are quite voluminous and cannot be discussed in depth in this Order without its exceeding reasonable limits. Because this situation exists, reliance will be placed where appropriate on the memoranda themselves without any attempt to recapitulate or summarize their contents. The New York Throwsters motion will be dealt with first and, as and where they dictate, the supplemental motions will be discussed.

Each of these motions listed above seek, *inter alia,* to have the Leesona single heater patents declared unenforceable. This Court has previously ruled that those three patents are invalid because of a violation of the provisions of § 102(b) of Title 35, United States Code. *In re Yarn Processing Patent Validity Litigation,* 360 F.Supp. 74 (S.D.Fla. 1973). In view of the fact that that Order has been appealed to the Fifth Circuit Court of Appeals, and because

that determination is not necessary to a decision ons, for the purposes of this decision the Order invalidating the single heater patents will not be considered to have been entered.

The New York Throwsters motion recited 48 facts which it considered material and undisputed. Leesona, in its memorandum in opposition to the motion, has disputed outright certain of those facts and disputed other facts only as worded by the movants. After an analysis of those facts together with Leesona's forthright responses, the Court considers the following facts to have been established and agreed to for the purposes of this motion:

1. The 1954 agreement between Leesona and Permatwist provided that the Leesona Model No. 550 machine would be sold by Leesona "only when accompanied by a royalty-free limited license to use the said machines and attachments for the production of crimped, fluffed and wavy nylon yarn."

2. A 1954 Leesona memorandum reflects that *a* purpose for this provision was as follows: "It is understood that this is for the protection of the customer and also protects Universal against future contesting of our patents by our customers."

3. Permatwist, on December 1, 1955, advised Leesona that it was "opposed to sell J. P. Stevens [a throwster] 660 machine on a basis that [would] permit them to contest the validity of patents [sic] claims which might issue covering crimped, fluffed or wavy yarns." By a letter of December 5, 1955 Leesona acquiesced and agreed to insert such a provision.

4. Leesona's sales agents were instructed that license agreements were to be signed by all purchasers of Leesona's Model No.550 machinery, and that this matter was "very important" to Leesona's patent rights.

5. Leesona concluded at least fourteen manufacturing license agreements with sellers of false twist machinery, someof whom had never sold such machinery in the United States, and others of whom were licensed only after infringement litigation was initiated against them.

6. At least three of these manufacturing license agreements contain affirmative convenants not to contest the validity of Leesona's patents.

7. One of the "intended functions" of the assignment of the post-treating patents to Lex-Tex in 1967 was "to insulate Leesona and Leesona's stretch yarn program from being involved in any post treating litigation" that Lex-Tex might bring.

8. The 1954 agreement between Leesona and Permatwist required Leesona to permit other manufacturers of textile machines to sell false twist machinery "provided said manufacturers agree that purchasers of said machines . . . shall first secure a license agreement."

9. The agreement between Leesona and Permatwist dated October 17, 1958, which related to the exploitation of Leesona's high speed spindle, contemplated the division of royalties with other manufacturers of high speed spindles. The fundamental purpose of this agreement was setforth in a letter by Leesona patent counsel, A. P. Davis, to William Fuchs: "The basis for this offer is that they would be doing us a service by supplying our licensees with equipment which would earn a royalty for us."

10. The agreement between Leesona and Heberlein dated October 1, 1958, relating to the exploitation of Leesona's high speed spindle, contemplated the possible division of royalties with other manufacturers of high speed spindles, and allocated the burden of such payments as follows: Leesona—85%; Heberlein—15%.

11. Heberlein participated in the negotiation of its manufacturing license agreement with Leesona dated April 1, 1962, although the basic terms of the manufacturers licenses had been decided by Permatwist and Leesona as early as October, 1958.

12. The manufacturing license agreement between Leesona and Heberlein dated April 1, 1962 contained a most favored nations clause which contemplated the grant of additional manufacturing license agreements by Leesona, in substantially similar form. Each subsequent manufacturing license agreement issued by Leesona contained a similar most favored nations clause. See fact 11.

13. The fact that Heberlein would sell false twist machinery to throwsters who executed the Leesona production royalty license was publicized throughout the trade.

14. Leesona represented to its manufacturing licensees and potential manufacturing licensees that it had "decided some years ago to license all machinery manufacturers under our standad arrangement."

15. Throwsters proposed fact is denied.

16. After an inquiry by Berliner, a machinery manufacturer in Europe, Leesona explained to Mr. Dufort of Scragg:

> "It goes without saying that we are no different from anyother manufacturer and do not welcome competition. However, we decided some years ago to license all machinery manufacturers, under our standard arrangement, who want to sell in the United States and Canada. It is also clear that all of us will be better off if Berliner enters into this market as a licensee.

17. Throwsters proposed fact is denied.

18. In 1954, before Leesona's acquisition of the single heater patents, Leesona's sales agents were authorized to represent that Leesona would "agree to defend at our expense any infringement suit brought" by Permatwist, although Leesona was "not ready to guarantee to indemnify" clients for infringement damages.

19. Throwsters proposed fact is denied.

20. Throwsters proposed fact is denied.

21. Leesona settled its litigation with Southern Silk Mills on terms which included the transfer of a royalty-free license to operate false twist machinery. One of the reasons this was done was because Leesona was involved in other litigation and did not feel that Southern's homemade machines posed any substantial competitive risk.

22. Throwster proposed fact is immaterial to this motion.

23. Each of Leesona's manufacturing license agreements authorizes sales only to throwsters who have been licensed by Leesona. Had this provision not been included, the purchaser of a machine from a licensed manufacturer might be said to have acquired an implied royalty free license to use the machine as it was intended to be used.

24. Each of Leesona's manufacturing license agreements provides that Leesona may terminate the license if sales are made to unlicensed throwsters.

25. At least one of Leesona's manufacturing license agreements contains an affirmative statement by the manufacturing licensee that it will not deliver false twist machinery to any throwster who has not executed the Leesona license; Leesona was to communicate the fact of licensing to that spindle manufacturer.

26. Each of Leesona's manufacturing license agreements provides that one-third of the production royalties collected by virtue of the operation by throwsters of the competitor's false twist machinery will be returned to the manufacturing license. The licenses themselves contain a provision explaining Leesona's reasoning in this regard and for purposes of brevity that provision is incorporated herein by reference.

27. Of Leesona's manufacturing licensees, only Heberlein and Klinger contributed patents or technology to Leesona. The agreements transferring patent rights to Leesona were arrived at independently of the manufacturing license.

28. With respect to Heberlein, Leesona agreed to make separate payments for the patents contributed. These arrangements are contained in agreements dated April 27, 1955 and October 1, 1958.

29. With respect to Klinger, the patent was licensed to Leesona in a separate instrument, and the one-third royalty rebate was not affected.

30. Under the terms of the manufacturing license agreements, the licensees were expressly precluded from having any say in the royalty rates and terms of the license granted to the purchaser of the licensee's false twist machinery.

31. Pursuant to the Permatwist-Leesona agreements, which could not be interfered with by these manufacturing licensee agreements, throwsters purchasing machinery sold by Leesona's manufacturing licensees were required to execute a license which provided for the payment of production royalties of six cents per pound of yarn textured on a 70 denier basis.

32. In the agreement between Leesona and Permatwist dated October 17, 1958, the level of these production royalties was fixed.

33. In the agreement between Leesona and Heberin dated October 1, 1958, Heberlein consented to a reduction of the amount of the royalties to be paid it by Leesona. This consent was necessary in order to allow Leesona and Permatwist to renegotiate the per pound royalty on yarn processed on the high speed spindles.

34. In 1958, Leesona refused to sell its own high speed false twist spindles to throwsters who would not agree to accept the production royalty license.

35. In 1958, Leesona initiated a series of law suits, based on both the false twist patents and the Hilbert spindle patents, against both purchasers and sellers of high speed false twist machinery and spindles. None of these litigations resulted in an adjudiciation of the validity of Leesona's United States patents on the merits. However, in its action against Scragg on its Canadian patents Leesona was successful. In litigation against Joe Smith, Inc., in the United States the defendant acknowledged the validity of the patents on the eve of trial and accepted a license.

36. By the time these actions were initiated in 1969, royalties collected by Leesona for the operation of machinery sold when the production royalty was initiated in 1958, amounted to between two and six times the initial selling price of that machinery.

37. Leesona's former president has testified that "The price of our machinery has always been a combination of machine price and royalty," and that "Royalties are price, it seems to me."

38. Throwster proposed fact denied as conclusory.

39. Throwster proposed fact denied.

40. The agreement between Leesona and Permatwist dated December 14, 1954, required that all improvements "made or acquired" by Leesona would be exploited according to the terms of the agreement. The agreement between Leesona and Permatwist dated October 1, 1958, was in form a modification of the December 14, 1954 agreement occasioned by Leesona's "application for a patent on a High Speed Spindle."

41. By virtue of its April 27, 1955 and October 1, 1958 agreements with Heberlein, Leesona acquired rights under a number of Heberlein patents.

42. By virtue of its agreements with the Deering-Milliken group, dated March 31, 1964, Leesona acquired rights under a number of Deering-Milliken patents.

43. Leesona maintained royalty reports or summaries which were prepared on a quarterly basis under the supervision of Robert H. Wallace, the manager of its Market Research and Product Planning Department. The information for these reports was derived from royalty reports submitted by Leesona's licensees. In order to complete the report Leesona estimated the yarn production on the ARCT machinery as well.

44. These quarterly royalty reports were considered by Leesona to be accurate except insofar as inaccuracy may have arisen from inaccurate reports by the licensees or inaccurate estimates of ARCT production, and were relied upon by Leesona's executives in making business decisions.

45. According to these records, Leesona's percentage shares of the market for the licensing of false twist texturing operations in the United States for the sixteen quarterly periods immediately preceding the institution of this litigation were as follows:

Second Quarter 1969 — 74.73%
First Quarter 1969 — 74.73%
Fourth Quarter 1968 — 75.20%
Third Quarter 1968 — 74.70%
Second Quarter 1968 — 74.20%
First Quarter 1968 — 73.2%
Fourth Quarter 1967 — 72.6%
Third Quarter 1967 — 72.1%
Second Quarter 1967 — 73.5%
First Quarter 1967 — 74.9%
Fourth Quarter 1966 — 74.5%
Third Quarter 1966 — 72.9%
Second Quarter 1966 — 75.0%
First Quarter 1966 — 76.0%
Fourth Quarter 1965 — 78.7%
Third Quarter 1965 — 80.1%

Additionally, a survey of Leesona's royalty reports indicates that during this relevant time period more than 85 per cent of the

royalties received by Leesona were paid on Leesona machinery. Less than 15 percent of the false twist royalties received by Leesona were from yarn processed on machinery manufactured by, or reconstructed with spindles from, the machinery manufacturing licensees.

46. New York throwsters have paid production royalties to Leesona, pursuant to the terms of their existing agreements, during the four-yuear period immediately preceding the institution of this litigation.

47. Both Leesona's false twist (single heater) patents and the high speed spindle patents were licensed to various throwsters who used false twist machinery produced by Leesona or its machinery manufacturing licensees.

48. Throwster proposed fact denied as conclusory.

It has been possible to arrive at these undisputed facts, some of which may or may not be material, by reviewing the response provided by Leesona in accordane with Local Rule 10(J)(2). Where Leesona has indicated that a dispute exists because of the use of certain terminology, or where the deletion and/or inclusion of certain material is complained of, the proposed fact has been reworded to incorporate Leesona's proposed wording. This has been done on the theory that Leesona's counsel would not have proposed the additional material or alternate wording unless they were prepared, on behalf of their client, to agree to the fact as modified. Leesona in its memorandum did not, in a concise statement, list any additional "material facts as to which it is contended that there exists a genuine issue to be tried," so the motion should be granted or denied on the facts as set forth above.

It has been the New York Throwsters' contention throughout that these facts disclose

(1) An overall combination or conspiracy in restraint of trade that violated Section 1 of the Sherman Act,
(2) The individual elements of which include the per se antitrust violations of
    (a) concerted regulation of distribution and the boycotting of trade channels,
    (b) division of profits among competitors, and

(c) price fixing;

(3) With the result being an overall scheme to monopolize the manufacture of false twist machinery, and an actual achievement of that monopoly goal.

It is these alleged antitrust violations, they argue, that directly injured them and for which injuries they should receive treble damages. They argue almost incidentally that because these antitrust violations have been shown, the New York Throwsters are entitled to an injunction against the continuation of these practices and a declaration that the patents involved in the scheme have been misused and are hence unenforceable. [14]

Leesona has countered these arguments by assenting that the undisputed material facts

(1) Fail to disclose that Leesona was a party to a conspiracy, that there was any inhibition to the challenge of the patents, that there was an unreasonable restraint of trade, or that the Throwsters were proximately injured;

(2) Show that the legal theory of antitrust law relied on is inapplicable and that the measure of damages requested is improper;

(3) Illustrate that the licensing arrangements with the machinery manufacturers do not amount to an unreasonable restraint, profit sharing, price fixing, or llegal monopolization; and

(4) Conclusively demonstrate the Throwsters claims are barred by the statute of limitations, laches, and estoppel.

As to one of the last aspects of the Throwsters motion, Leesona notes that if no antitrust violations have been shown, no right to an injunction exists. It is also Leesona's position that if antitrust violations have not been shown, the misuse claim fails. [15]

Mindful always of the caveat that "[s]ummary judgment is the rare exception, *see Ronel Corporation v. Anchor Lock of Florida, Inc.*, 5 Cir. 1963, 325 F.2d 889, and not the rule in patent

[14] Transcript of Proceedings, April 16, 1974, at 81.

[15] *Id.* at 84.

infringement cases," *Ag Pro, Inc. v. Sakraida*, 437 F.2d 99 (5th Cir. 1971), the Court nevertheless agrees with the Throwsters contention that:

> . . . Thus, in the main, there is no genuine issue as to these key material facts, and the only question before the Court is whether we are entitled to judgment as a matter of law. In other words, the important issue of the antitrust legality of Leesona's licensing program is now ripe for summary judgment. [16]

If a trial were held in this, or the New York Court the parties agree that the facts adduced would be the same as those previously listed above. Therefore the facts as agreed to by the parties either do or do not support the Throwsters' position.

[8] It is the Court opinion that they do, at least in part, support the throwsters motion and accordingly, it is granted as described below. The New York Throwsters asked this Court to grant a summary judgment that:

(a) the manufacturing license agreements signed by Leesona and the fourteen machinery manufacturers violated Sections 1 and 2 of the Sherman Act, 15 U.S.C.A. §§1 and 2;

(b) these antitrust violations proximately caused injury to the throwsters for which treble damages under Section 4 of the Clayton Act, 15 U.S.C.A. §15, are recoverable;

(c) the single heater and high speed Hilbert spindle patents, owned by Leesona and used as an integral part of these arrangements, have been misused and are therefore unenforceable.

Based on the facts summarized by the Court, points (a) and (c) are well taken and a summary final judgment as to those two aspects of this litigation will issue. The facts as agreed to, however, do not establish as a matter of law at this point the proximate cause of any damages sustained by the throwsters nor their amount. The trier of fact must determine whether the throwsters will prevail on point (b) as to these counterclaims.

[16] Reply Memorandum of New York Throwsters in Support of Motion for Summary Judgment, Rayser-Roth Corp. et al v. Leesona Corporation, 360 F.Supp. 74 (S.D.Fla.).

Although no requirement exists under Rule 52(a) for the Court to enter written conclusions of law when granting a summary judgment,

> . . . they are certainly permissible and the practice has been commended as greatly helpful to the appellate court in making clear the basis for the trial court's decision. 3 Barron & Holtzoff, Federal Practice and Procedure, *See* 1242 at 201 (Wright ed. 1958).

United States for the Use of Industrial Instrument Corp. v. Paul Hardeman, Inc., 320 F.2d 115, 116 (5th Cir. 1963). *See Steed v. Central of Georgia Railway Company*, 477 F.2d 1303, 1305 (5th Cir. 1973). Therefore, in the event this ruling is appealed, it may be considered that if the Court had entered its own written conclusions of law on the facts as presented, those findings would compare very favorably with the law contained in the Reply Memorandum of New York Throwsters in Support of Motion for Summary Judgment, pp. 4-60 and 74-101. Accordingly, those portions of the memorandum are hereby adopted by the Court in the interests of brevity.

B. Universal Textured Yarns (hereinafter UTY) summary judgment motion in case Number 72-556-CIV-CA supplements the New York Throwsters motion just discussed to the extent that it seeks a declaration that the double heater (or post-treating) patents, now owned by Lex-Tex of Florida, may not be enforced against it. Twenty-three additional material facts are relied on by UTY; these are recited in accordance with the Court's local rules, although they do lack to some degree the background references from which their derivation is accomplished. Lex-Tex, in a somewhat belated fashion, filed its response to those facts and admitted four of them. No memorandum in opposition to this motion has been filed by Lex-Tex in case No. 72-556-CIV-CA, although the memorandum filed in case No. 71-83-CIV-CA appears to deal with the legal principles involved and will be considered for purposes of this motion.

[9] After a review of the material submitted with this motion, including the Lex-Tex 10(J)(2) statement with its summary denials of facts elsewhere admitted by itself or one or more of the

many former owners of the double heater patents, the conclusion is inescapable that these patents have been misused by both their former owners and Lex-Tex of Florida. The various parties, through the agreements and understandings fully documented in this cause, carefully intertwined these post-treating patents with the overall conspiracy involving the single heater and high speed spindle patents. The Reply Memorandum of Universal Textured Yarns, Inc. to Memorandum of lex-Tex, Ltd., Inc. in Opposition to Summary Judgment Motion for Unenforceability of Post Treating Patents for Misuse adequately deals with the spurious denials of otherwise non-disputed material facts when that memorandum is read in light of the New York Throwsters reply memorandum. It is indeed difficult for the Court to believe that after Lex-Tex and UTY have litigated over the validity, infringement, and misuse of these particular patents for over *three years*, Lex-Tex is only able to generate only the most perfunctory denials of the material facts that submitted by UTY in support of these motions. That showing bespeaks either an inadequate managing of the discovery proceedings for the two years they have been consolidated in this district or a genuine lack of enthusiasm on the part of Lex-Tex. The Court prefers to believe the fault lies in the latter. The motions filed by UTY in case Nos. 71-83-CIV-Ca and 72-556-CIV-Ca are granted.

C. Celanese and FII filed their motion under Rule 56(c) for Partial Summary Judgment of Illegality of Certain Agreements and Unenforceability of Certain Patents in their declaratory judgment action earlier than any of the other motions ruled on above. The motion requests a declaratioin that the single heater, double heater ('724 and '912) and spindle patents were unenforceable by Leesona on or before September 22, 1967 because they were subject to the provisions of certain agreements between Leesona and Permatwist which agreements constitute patent misuse. These agreements include the original 1954 agreement between the two, as well as the supplemental agreements of 1958 and 1960 and letter agreements of 1964, 1965 and 1967. The 1954, 1958 and 1960 agreements by their own

terms provided for the fixing of both machine and yarn royalties under the single heater patents and subsequently, the high speed spindle patents, while the letter agreements provided for Permatwist's waiver of its rights to the spindle royalty previously fixed. The key facts relied on Leesona are its assertions that (1) Permatwist and Leesona have never been nor would ever be, competitors in the falsetwist machinery business, (2) the 1954 agreement was nothing more than the assignment of patent rights, and (3) the ultimate sale priceof the machines themselves were not fixed by the agreements, but only the royalty rates to be charged. Celanese and FII argue that these facts can be accepted by the Court as put forth by Leesona and their right to summary judgment is still not impaired.

The Court cannot agree. The narrow ground on which this motion is predicated, relating asit does to only the legality of the assignment agreement between Permatwist and Leesona together with its supplements, makes inappropriate the entry of a summary judgment on the facts as they now appear in this motion. The 10(J)(2) statements filed by the parties have helped to restrict to a measurable degree the factual areas in dispute, and those efforts are appreciated by the Court. Nevertheless, the motion, as it is framed does require an analysis of the competitive posture of Permatwist *vis-a-vis* Leesona prior to the 1954 agreement that forms the crux of this motion, and therefore the motion must be denied.

IV

Burlington Industries Motion for Summary Judgment as to Leesona's Sixth Counterclaim

Celanese and FII Motion for Summary Judgment Dismissing Count Two and Paragraph 49 of Count Three of Leesona's Antitrust Counterclaims

[10] These two motions attacking the standing of Leesona to assert certain antitrust counterclaims were filed in case numbers 72-641-Civ-CA and 71-1026-Civ-CA respectively on or about

the first week of December, 1973. As briefed by the parties, they rely on substantially the same grounds and were therefore argued by the movants in a more or less joint fashion. The sixth counterclaim filed against Burlington can be summarized by quoting from paragraph 57, which charges that Burlington

> has sought to obtain, exercise and maintain such unlawful control and domination [over the synthetic yarn throwing industry] by entering into preferential and discriminatory purchase contracts with suppliers of raw synthetic fibers, by entering into reciprocal arrangements and agreements with purchasers of stretch and set yarns, by unlawfully manipulating and fixing the prices of stretch and set yarns through the undisclosed control by plaintiff Burlington Industries, Inc. of Plaintiff Madison Throwing Company, and by diverse other means.

Count Two of Leesona's antitrust counterclaims against Celanese allege that Celanese "attempted to . . . monopolize and has exercised unlawful control and domination over the synthetic yarn and throwing industries." This scheme had discriminatory practices, "including participation in illegal contracts, combinations and conspiracies." Paragraph 49 of the Third Count charges that Celanese and FII both tried to fix prices and manipulate markets for synthetic yarn here and abroad.

Leesona, as a manufacturer of yarn processing machinery, alleges that these conspiracies and *per se* antitrust violations served to artifically limit the size and growth of the yarn processing industry, thereby eliminating potential markets for its machinery and concomitantly restricting its ability to collect royalties under its patents. Following the conclusion of oral argument on the above-styled motions the Court made the following announcement:

> The question for decision is whether Leesona, assuming the allegations of its counterclaims, supplemented by discovery, to be true, has standing to sue for that part of its claim challenged by the subject to motions for summary judgment.
>
> It is clear that the alleged monopolization was aimed at competing throwsters and textured yarn purchasers, the synthetic yarn industry.

Leesona, as the manufacturer and seller of textile machinery is at least one step removed from this segment of the yarn industry. Hence, it is not in the target area of the alleged illegal restraint. An era of the economy that could be endangered by the breakdown of competitive conditions. As a result Leesona was not directly or proximately injured by the lessening of competition therein.

Accordingly, I find that Leesona lacks standing for either treble damages or injunctive relief.

The motions for summary judgment dismissing those parts of the counterclaims failed—are granted. [17]

The Court, in ruling on the motions in this fashion, relies on the legal authority cited by both Celanese and Burlington in their memoranda filed in support of these motions. The memorandum filed by Leesona in opposition to these motions, while quite substantial in size, [18] failed to demonstrate to the Court's satisfaction that Leesona was within the target area of these alleged antitrust violations.

V

A) Celanese and FII Motion for Partial Summary Judgment of Noninfringement of Spindle Patents by FAGSpindles

Pursuant to the stipulation entered into by counsel for Celanese and Leesona at the hearing held on April 17, 1974, this motion is denied as moot.

B) Celanese and FII Motion for Summary Judgment of Noninfringement of Spindle Patents by Spindles of Leesona Manufacture

Celanese and FII have filed this motion in case number 71-1026-Civ-CA in the hopes that the Court would declare the high

17 Hearing on Motions for Summary Judgment, April 17, 1974, at 87-88.

18 The memorandum went into great detail in attempting to demonstrate the existence of the conspiracies and combinations complained of, apparently on the theory that if they were proven to in fact exist the Court would be loath to dismiss the counterclaims. However, for the purposes of this motion, the court must presume, whether it believes the charges or not, that actual violations did take place.

speed spindle patents owned by Leesona to not be infringed by Celanese's use of certain previously owned Leesona 553machines purchased in Europe. After the machines were purchased and brought to the United States, Celanese ordered $22,000 worth of replacement high speed spindles.Leesona agreed to provide Celanese with the replacement spindles, as well as a service engineer to help install them properly, but attempted to reserve its patent rights with the following language contained in a letter to Celanese:

> . . . any subsequent sales of parts to you for use with these machines are without prejudice to Leesona's rights under its patents and will not grant any implied license under such patents.

It is the position of Celanese that Leesona's sale of these 553 machines in Europe without any "condition that the purchaser accept a license" under any Leesona patents exhausts the patent monopoly as to those machines and permits the use of the machines in their intended fashion without risk of infringement. Leesona, on the other hand, argues that

> A mere sale imports no license except where the circumstances plainly indicate that the grant of a license was inferred.

Radio Corporation of America v. Andrea, 90 F.2d 612, 615 (2d Cir. 1937). The material fact that prevents the granting of this summary judgment, in Leesona's opinion, is the intention of the parties as to the possible granting of a royalty free license with the sale of the replacement spindles. Leesona, however, does not challenge the Celanese position that it may use the 553 machines with their original spindles without risk of infringement.

[11,12] Curiously enough, counsel at oral argument conceded that they were in agreement on the law to be applied, so no problem is created in that respect. If the machines were "reconstructed" the patent royalties are due Leesona, and if they were "repaired" the royalties are not due. *See Wilbur-Ellis Company v. Kuther,* 377 U.S. 422, 84 S.Ct. 1561, 12 L.Ed.2d 419 (1964). Unfortunately for Celanese, it seems clear that whether the addition of the new

high spindles constituted "repair" or "reconstruction" presents the Court with nothing more than the need to resolve an issue—precisely the task forbidden under Rule 56 of the F.R.Civ.P. It is true that Leesona was somewhat recalcitrant in responding to the interrogatories submitted by Celanese on this precise matter, but that need not preclude them from raising this factual dispute when an answer was finally provided. The motion is denied.

CONCLUSION

This order has disposed of several substantive aspects of this litigation and will need to be examined closely by counsel for the various parties involved in these 51 consolidated cases in order to determine the exact status of each case in light of its entry. Counsel are requested to provide the Court and opposing counsel as expeditiously as possible with the appropriate summary final judgments in each case where a motion has been granted so that the Court may give consideration to them. Notice of pretrial conference in those actions with aspects still in issue will be provided by the Court at the time the Order on the remaining summary judgment motions is entered. The time between the notice and the conference is not expected to be more than two weeks, so all counsel should be prepared to submit the appropriate pretrial stipulations accordingly.

SUPPLEMENTAL OPINION

ORDER VACATING SECTION III(c) OF THE APRIL 25, 1974 "ORDER ON VARIOUS PENDING MOTIONS FOR PARTIAL SUMMARY JUDGMENTS" AND GRANTING PARTIAL SUMMARY JUDGMENT

Celanese and Fiber Industries, Inc.'s (FII) motion under Rule 56(c) for Partial Summary Judgment of Illegality of Certain Agreements and Unenforceability of Certain Patents was denied by this Court's Order of April 25, 1974. The motion sought a declaration that the single heater ('105, '108 and '109), double

heater ('724 and '912) (at least until September 22, 1967) and spindle ('086, '247, and '218) patents were unenforceable by Leesona because they were subject to the provisions of agreements between Leesona and Permatwist which agreements constitute patent misuse. These agreements include the original 1954 agreement between the two as well as supplemental agreements of 1958, and 1960 and letter agreements of 1964, 1965 and 1967. The Court denied summary judgment in the belief that the motion required factual development and analysis of the competitive posture of Permatwist *vis-a-vis* Leesona prior to the 1954 agreement which forms the foundation of the motion.

Celanese and FII have moved for reconsideration of the Court's order citing for the first time, *Battle v. Liberty National Life Insurance Co.*, 493 F.2d 39 (5 Cir. 1974). In light of this precedent and in the interest of a more precise statement of facts, the Court vacates Section III(c) of the April 25, 1974 Order and considers de novo the original Celanese and FII motion. Since the determinations made in Section III(A) & (B) of the April 25, 1974 order are not necessary to reconsideration of the instant motion, for purposes of this decision those summary judgments will not be considered to have been entered.

The Celanese and FII motion recited 30 facts which it considers material and undisputed. Leesona, Permatwist,and Lex-Tex have disputed outright certain facts and disputed others as worded, sometimes adding the proviso that the parties' agreements speak for themselves. Additionally, Leesona, Permatwist and Lex-Tex have proposed eight allegedly material facts which they urge are either in dispute or are undisputed but require denial of summary judgment. In reviewing Lex-Tex and Permatwist's response under Local Rule 10J(2), the impression is created that these parties have not cooperated in the spirit of Federal Rule 56 to aid the Court in its determination of the existence of any *genuine* dispute as to any material fact.

For the convenience of the Appellate Court, in the event this order is appealed, the Court has listed all those facts considered in dispute by the parties as well as the established material facts. Where the parties disagreement concerns the interpretation of a

writing which may be solved by looking to the writing alone, the dispute is immaterial since interpretation isfor the Judge. *Ammons v. Franklin Life Insurance Company,* 348 F.2d 414, 416-417 (5 Cir. 1965). The Court has considered the following facts:

1. Exhibit A is a true copy of an agreement consummated by Leesona and Permatwist dated December 14, 1954.

2. Exhibit B is a true copy of an agreement consummated by Leesona and Permatwist dated October 17, 1958.

3. Exhibit C is a true copy of an agreement consummated by Leesona and Permatwist dated September 16, 1960.

4. Exhibit D is a true copy of a letter agreement consummated by Leesona and Permatwist dated January 21, 1964.

5. Exhibit Eis a true copy of a letter agreement consummated by Leesona and Permatwist dated December 15, 1965.

6. Exhibit F is a true copy of a letter agreement consummated by Leesona and Permatwist dated June 5, 1967.

7. Exhibit G is a true copy of an agreement consummated by Leesona and Permatwist dated September 22, 1967.

Both No. 8's. Celanese's proposed facts are disputed by Leesona and disputed as worded by Permatwist and Lex-Tex which state the agreements speak for themselves. These facts are not immaterial.

10. Celanese and FII's proposed fact is disputed as phrased by Lex-Tex and Permatwist and disputed by Leesona. This fact is immaterial.

11. Each of Leesona (Hilbert) spindle patents 2,791,086, 3,044,247 and 3,134,218; each of the double heater patents 3,077,724 and 3,091,912 (at least until the transfer of said patents from Leesona to Lex-Tex North Carolina pursuant to Exhibit G) and each of the Permatwist (Stoddard and Seem) single heater patents 2,803,105, 2,803,108 and 2,803,109 is subject to the provisions of Exhibit A, B, C, D, E and F.

(a) The Exhibit A agreement in terms includes the single heater patent applications and the patents maturing therefrom. See, e.g. Par. 1(b), p. 2.

(b) With respect to the spindle patents:

(i) Leesona's supplemental answer to Celanese and FII Interrogatory 41 (Exhibit I) filed pursuant to Paragraph 9 of the order of July 30, 1973 states that the spindle patent applications and patents are subject to the December 14, 1954 agreement, Exhibit A as amended. See particularly Answers to Interrogatories 41(A) and (D).

11(b)(ii) the application which became high speed spindle patent 3,044,247 (and its division patent 3,134,218) is the specific subject matter of the second whereas clause of Exhibit B. *See* Celanese Interrogatory 48 to Leesona and Leesona's verified answer.

12. Leesona admits that Permatwist has a continuing right to receive compensation from Leesona based on the use of single heater patents but denies that the transfer to Leesona of Permatwist patent rights in the false twisting field pursuant to Exhibit A, the agreement of December 14, 1954, was not unqualified and that Permatwist still retains any ownership interest in the single heater patents.

Leesona agrees that Leesona and Permatwist have represented to the United States Court of Appeals for the Fifth Circuit:

> "On December 14, 1954, the Permatwist partners, *while retaining certain continuing beneficial rights,* assigned their patent applications to Universal Winding Co., now known as Leesona Corporation . . ." [Brief for Leesona, 5th Cir. Case No. 7302 420, pp. 15-16].

Permatwist and Lex-Tex dispute fact 12 as worded and state the rights of Permatwist are as set forth in Exhibit A.

13. Leesona admits that Permatwist has a continuing right to receive compensation from Leesona based on the use of the single heater patents, but denies Permatwist has ownership interest in the single heater patents.

Permatwist and Lex-Tex dispute Celanese's fact as worded and allege the retained rights, if any, of Permatwist are as set forth in the exhibits, which speak for themselves.

14. Leesona responds that Permatwist and Leesona share equally in the royalties received by Leesona from licensing of patents pursuant to the Leesona-Permatwist agreement of December 14, 1954.

Permatwist and Lex-Tex dispute as worded Celanese's proposed fact and respond that Leesona pays to Permatwist payments as set forth in Exhibits A as amended by Exhibits B, C, D, E, and F to the extent that Leesona has collected such royalties.

15. Permatwist and Lex-Tex agree that other continuing beneficial rights of Permatwist in all of the patents subject to E bit A agreement are defined at page 15 in paragraph 4(i) thereof as follows:

> That Permatwist is vitally interested in any patent litigation that Universal may initiate involving the validity of any patents issued on the applications sold hereunder, and any other patents provided for under the terms of this agreement, by reason of the fact that this agreement terminates in the event the said patents are declared to be invalid. That, therefore, Universal shall not undertake any litigation against infringement of any patents which may be issued on the applications herein transferred and assigned by Permatwist to it, and any other patents which may be granted on the processes, apparatus, and yarns herein transferred and assigned and any improvements therein, additions thereto and variations thereof, without prior consultation with Permatwist and their prior approval and consent, which shall not be unreasonably withheld.

Although Leesona admits the above recited paragraph is contained in the December 14, 1954 agreement, it denies that Permatwist has any ownership interest in all of the patents subject to the Exhibit A agreement.

16. the December 14, 1954 Exhibit A Agreement provides in paragraph 3C(A)vi:

> vi that the selling price of the machines to be manufactured by Universal [Leesona], or for it—as set forth in paragraph C(A)(i) hereof shall be *fixed* at $75.00 per spindle.
>
> That the selling price of the attachments to be manufactured by Universal [Leesona] or for it, as set forth in paragraph C)(A)ii hereof shall be *fixed* at $68.00 per spindle.
>
> That the selling price of the attachments to be manufactured by Universal [Leesona] or for it as set forth in paragraph C(A)(iii) hereof shall be fixed at $68.00 per spindle.

17. Permatwist and Lex-Tex dispute Celanese's fact 17 as worded. Leesona denies in part fact 17 but accepts as true:

> "Celanese and FII Interrogatory 32(A) and Leesona's suppleme answer verified August 27, 1972 in pertinent part state:
>
> "(A) Identify by model number or other appropriate designaion each 'synthetic yarn texturing' machine 'embodying various inventions claimed' in any of patents 2,803,105, 2,803,108 and 2,803,109 and as to each machine identified, state the claim or claims of each patent which define each 'invention' it embodies."

Supplemental Answer

U.S. Patent Claims

	2.803,105	2,803,108	2,803,109
Fluflon Model 994	1, 3, 6, 7	1-10	1-5, 8
Superloft Model 550	1-4, 7	1-10	1-5, 8

The Leesona supplemental answer to Celanese and FII interrogatory 32(c) states that the statutory notices placed on the Model 550 machine include reference to the single heater patents and to spindle patents 2,791,086 and that the statutory notices placed on the Model 994 machines include reference to the single heater patents.

18. The December 14, 1954 Exhibit A agreement provides at page 11 in paragraphs 3D(A), (B) and (C):

> "D. *Agreement upon Royalty Basis.*
>
> "(a) UNIVERSAL covenants and agrees that any license agreements entered into between UNIVERSAL and its licensees (except the royalty free licenses contemplated under the provisions of paragraph C hereof, and a license agreement with Synfoam Yarns, Inc. and Nyl-De-Chine, Inc, which are expressly excluded), including the license agreements transferred hereunder, for the use of either the Permatwist or Universal processes for the production of crimped, fluffed and wavy yarn, shall be fixed at the rate of twenty-five (25¢) cents

per pound for 70 denier yarn, with the rates for higher and lower deniers in proportion thereto but not less than ten (10¢) per pound for any denier.

"(b) That UNIVERSAL covenants and agrees that any license agreements entered into between UNIVERSAL and its licensees for other thermal processing made possible under the patent applications herein sold and transferred under paragraph 2 hereof, and under the UNIVERSAL processes and apparatus shall be *fixed* at such royalty rate per pound as it shall determine, but not less than ten (10¢) cents per ound.

"(c) That in the event UNIVERSAL manufactures or has manufactured for it the attachments upon which a license at the royalty rates herein provided shall be granted to licensees, it will *sell* said attachments upon which the licensed processes shall be used, at not in excess of $28.00 per spindle."

19. The October 17, 1958 Exhibit B agreement states in its "whereas" clauses that "the parties hereto have heretofore entered into an agreement dated December 14, 1954" (Exhibit A), that Leesona has "filed an application for a patent [now high speed spindle patents 3,044,247 and 3,134,218] on a High Speed Spindle," that "the sale of the High Speed Spindle as a replacement spindle for installation upon machines" provided with low speed spindles "and the sale of machines and apparatus of which the said [high speed] spindle is an integral part requires modification of" the Exhibit A Agreement, and that Leesona and Permatwist "have *agreed upon* such modification with respect to price, royalty and participation therein." The Exhibit B agreement then provides:

"1. In addition to its present sale of complete continuous process False Twist machines and apparatus which do *not* incorporate the High Speed Spindle, UNIVERSAL shall offer the High Speed Spindle hereinabove referred to for sale as a replacement spindle on present False Twist machines and apparatus, and also, shall offer for sale complete continuous process False Twist machines and apparatus incorporating the High speed Spindle. All of said sales shall be made pursuant to

the provisions of the Agreement dated December 14, 1954 as heretofore amended and as further amended pursuant to this agreement. .. . [p. 2]

* * * * * *

"7. Except as herein modified, the provisions of the Agreement of December 14, 1954, and its supplements, shall continue in full force and effect with respect to all matters herein and therein provided." (p. 9)

20. Leesona agrees "the provisionsin paragraph 1 and 7 of the October 17, 1958 Exhibit B agreement which continue the December 17,1954 agreement in full force and effect "except as herein modified" and the reference to the "present sale of complete continuous process false twist machines and apparatus which do not incorporate the High Speed Spindle" perpetuate the provisions of the December 14, 1954 agreement with respect to the fixed sales price for Leesona Model 550 machines said by Leesona to utilize the invention of the Hilbert low speed spindle patent 2,791,086 and inventions of the single heater Permatwist (Stoddard and Seem) patents and with respect to the Model 994 machines said by Leesona to utilize inventions of the single heater patents.

Permatwist and Lex-Tex dispute Celanese's proposed fact as worded and state the exhibits speakfor themselves.

21. Paragraph 2 of the October 17, 1958 Exhibit B agreement states:

"2. The prices to be charged by UNIVERSAL for sales [of high speed spindle equipment using the inventions of spindle patents 3,044,247 and 3,14,218] to be made pursuant to the provisions of Paragraph 1 hereof *are hereby fixed* as follows:"

22. Leesona agrees the high speed spindle equipment, the "prices" for which were "fixed" by paragraph 2 of the October 17, 1958 agreement include the Model 551 and 552 single heater false twist machines which aare represented by Leesona to utilize the inventions of the Leesona (Hilbert) high speed spindle patents 3,044,247 and 3,134,218 and the Permatwist (Stoddard and Seem) single heater patents but denies that the prices for the

Model 551 and 552 single heater false twist machines are *now* fixed by paragraph 2 of the October 2, 1958 agreement.

Leesona further admits that Leesona's supplemental answers to Celanese and FII interrogatory 32(A) states that the Model 551, 552, 553, 555 and 556 machines include reference to the high speed spindle patents 3,044,247 and 3,134,218 (except as to Model 551 which does not include patent 3,134,218) and to the single heater patents.

Permatwist and Lex-Tex dispute Celanese's proposed fact as worded and state the document speaks for itself.

23. Par. 5 of the October 17, 1958 Exhibit B agreement provides:

"5. It is an essential provision of this modification agreement that UNIVERSAL *shall* require each purchaser of *High Speed Spindles* or of machines or apparatus incorporating High Speed Spindles *to enter into a License Agreement requiring the said purchaser and licensee to pay royalties on yarn produced thereon at the rate of Six Cents per pound for 70 denier yarn* and for deniers and constructions of yarn at such rates as UNIVERSAL may from time to time determine to be in reasonable proportion to said rate of Six Cents per pound for 70 denier yarn. PERMATWIST shall be entitled to share of such royalties collected by UNIVERSAL, such share to be calculated and paid as follows:"

24. The Exhibit C agreement of September 16, 1960 adverts in its "whereas" clauses to the December 14, 1954 agreement and the October 17, 1958 agreement, states that "Leesona has developed and is about to offer for sale a new and improved High Speed Spindle machine (sometimes presently referred to as its Model 553 machine)" and that "the parties hereto desire by this supplementary agreement to determine the initial sale price of said machine, etc." The Exhibit C agreement then provides:

"1. The *price* to be charged initially by LEESONA for its new high speed machine presently referred to as the Model 553 machine *is* Two Hundred Twenty-Five Dollars per spindle. Such sale price may be increased to the extent permitted by

subsection (1) of Section 2(c) of the agreement of October 17, 1958 [Exhibit B], and to that end LEESONA shall furnish to PERMATWIST as soon as available its initial shop cost for its Model 553 machine which shall be used in determining the permissable amount of any such increase in sale price.

"3. The provisions contained in subsection (g) of Section 4 and in Section 5 [quoted in Fact 23, *supra*] of the agreement of October 17, 1958, shall so far as pertinent, apply with equal force and effect to the rights and liabilities of the parties as established by this agreement, and in particular to the payments to be made by LEESONA to PERMATWIST pursuant to the provisions of this agreement. Except as herein or heretofore modified, the provisions of the agreement of December 17, 1954, and its supplements shall continue in full force and effect with respect to all matters herein and therein provided for." (pp. 1, 2)

25. Leesona admits the Model 553 machine utlizes the inventions of the Leesona (Hilbert) high speed spindle patents 3,044,247 and 3,134,218 and of the Permatwist (Stoddard and Seem) single heater patents. Leesona denies that the prices for the model 553 machine are *now* fixed by paragraph 1 of the Exhibit C, September 16, 1960 agreement, in light of the letter agreements between Leesona and Permatwist of December 16, 1965 (Exhibit E) and June 5, 1967 (Exhibit F).

Permatwist and Lex Tex dispute Celanese's proposed fact as worded and state the document speaks for itself.

(a) Leesona, in its supplemental answer to Celanese and FII Interrogatory 16(c), verified August 7, 1972, has stated under oath:

"(c) All written amendments to the December 17, 1954 agreement between Permatwist and Leesona have been produced for inspection and copying by Celanese and FII. Since the burden of deriving or ascertaining the requested information is substantially the same for Celanese and FII as it is for Leesona, Leesona elects to respond pursuant to Fed.R.Civ.P. 33(c)."

"*Leesona presently knows of no oral amendment* to the Permatwist-Lessona agreement of December 14, 1954."

(b) Leesona, in its original answer to Celanese and FII Interrogatory 47(f) which inquires,

"(f) Has the agreement of October 17, 1958 [Exhibit B hereof] between Permatwist and Universal Winding Company been in any manner modified or amended since it was originally consummated?

* * * * * *

has sworn

(f) All arguments [sic agreements] between Leesona and Permatwist are being made available as aforementioned in accordance with Rule 33(c) and the answer to this Interrogatory may be ascertained therefrom."

The Leesona "Supplemental" Answer to Interrogatory 47(c) verified August 7, 1972 states:

"(f) The word 'arguments' in the original answer is a typographical error and should read 'amendments'.

"Leesona presently knows of no oral amendments."

27. Leesona admits all modifications of the Exhibit A, B and C agreements are written and have been produced.

Lex Tex and Permatwist dispute Celanese's proposed fact.

28. Paragraph 6 of the Exhibit B agreement of October 17, 1958 states:

"6. The parties hereto realize that economic conditions in the industry or other facts and circumstances may make it impossible, or, from a business standpoint, undesirable to sell or license the High Speed Spindles, and 550 type machines and Fluflon apparatus incorporating said spindle *at the prices and royalty rates herein fixed.* In that event, the parties hereto shall consult with each other and shall endeavor mutually to determine such modifications in prices and royalty rates and other terms of this agreement as may be then appropriate. No modification shall *be made by UNIVERSAL without the written consent of PERMATWIST."*

Leesona has sworn that all modifications of the Exhibit B

agreement are written and have been produced (see Facts 26(a) and (b)).

Permatwist and Lex-Tex's dispute of Celanese's proposed fact as above-worded is immaterial.

29. Leesona agrees that paragrap 5 of the October 17, 1958 agreement is still in effect, as modified by subsequent amendments.

Permatwist and Lex Tex dispute Celanese's proposed fact.

In addition to Celanese and FII's proposed Facts, Leesona lists the following facts as to which it contends there exists a genuine issue to be tried:

1. Leesona (formerly Universal Winding Co.) and Permatwist are not now and never have been actual or potential competitors in the false twist machinery business. The Court determines this fact is immaterial.

2. All provisions in the Leesona-Permatwist agreement of December 14, 1954 and all modifications to this agreement which relate to prices or royalties are designed to guarantee to Permatwist its sales price for the sale of the inventions assigned to Leesona. The Court determines this fact is immaterial.

3. Under the letter agreement of June 5, 1967 between Permatwist and Leesona, which now governs the calculation of Leesona's purchase price for the single heater patents, Leesona is not required to pay a spindle or machine royalty unless Leesona shall "sell at any time any stretch yarn machinery at a net selling price resulting in a gross margin significantly in excess (that is to say more than nominal) of the gross margin then regarded by Leesona as its normal gross margin or other comparable textile machinery manufacturing sold by it . . ." In that event, Leesona "will promptly disclose to Permatwist the amount of such excess and shall pay to Permatwist one half of such excess." Letter Agreement of June 5, 1967. The Court determines this fact is immaterial.

4. Subsequent to the December 15, 1965 letter agreement between Permatwist and Leesona which eliminated the spindle or machine royalty, prices for Leesona's false twist texturing machinery have been set exclusively by Leesona. Permatwist has

not participated in the setting of such prices. A. P. Davis Affidavit ¶5. The meaning of the December 15, 1965 letter agreement may be resolved from the letter itself and is for the court. Further, whether prices for Leesona's false twist texturing machinery have been set exclusively by Leesona since December 15, 1965 is immaterial for the purpose of this motion.

Those facts which Permatwist and Lex-Tex proffer as either in dispute or which although undisputed require denial of summary judgment are as follows:

1. Celanese and FII acquired their first stretch yarn machinery in about 1971. Prior to that time they had no such machinery nor did they pay royalties under the patents. The Court determines this fact is immaterial.

2. Neither in 1954 nor at any other time was Permatwist in the business of textile machinery manufacturing nor was it a competitor of Leesona or any other textile machinery manufacturer and/or throwster. The Court determines this fact is immaterial.

3. There is no evidence that Lex-Tex, Ltd. has any illegal agreements which would be violative of Section 1 of the Sherman Act at the present time nor at any other time since its acquisition of the double heater patents in September of 1967. The Court determines this fact is immaterial.

4. By agreement dated June 5, 1967, Permatwist and Leesona agreed that the only payment which Permatwist would receive for the sale of its rights would be (1) a percentage of the production royalty to be paid by the user of any machines in the United States and Canada embodying their inventions with no efforts being made to fix the price of either the machinery or the ultimate sales price of the yarn; (2) a percentage of any amounts which Lessona might receive over and above their normally established manufacturer's profit margin in the sale of their machinery with no efforts being made to fix the sales price or profit of that machinery at any given level; and (3) 5% of Leesona's net sales price on machines sold for export without a license requiring the payment of a production royalty with no attempt being made to fix the net or gross selling price. Lex-Tex

and Permatwist's proposed fact is denied by Celanese and FII.

It has been Celanese and FII's contention that the facts disclose:

1. The December, 1954; October 17, 1958; and September 16, 1960 agreements between Leesona (then Universal Winding Co.) and Permatwist are patent pooling agreements.

2. The pooling arrangements provided for joint exploitation of the pooled patents and technology of both parties by sale (a) of machines said to embody the patents at agreed upon fixed prices and (b) of licenses to utilize the patented inventions at agreed upon fixed royalty rates.

3. The December, 1954; October 17, 1958; and September, 1960 agreements to fix prices on articles covered by the parties' respective patents and to fix the royalty rates for licenses are outside the patent monopoly and thus are unlawful *per se* under Section 1 of the Sherman Act.

4. The patents involved are essential to the Leesona-Permatwist conspiracy to violate the antitrust laws and thus unenforceable until the misuse is purged.

5. The December 15, 1965 and June 5, 1967 letter agreements do not cancel from the 1954 agreement as modified in 1958 and 1960, the provisions by which the ultimate machinery sales price is fixed.

6. The December 15, 1965 and June 5, 1967 letter agreements do not cancel or alternatively, terminate the provisions in the 1954, 1958, and 1960 agreements by which the price of a license is fixed.

Leesona has encountered these arguments by asserting that the undisputed material facts:

(1) Show that the false twist machinery provisions of the December, 1954; October 17, 1958, and September 16, 1960 agreements have been superceded by the Leesona-Permatwist letter agreements of December 15, 1965 and June 5, 1967. "Thus, under the January 27, 1965 agreement, *made permanent* by the June 13, 1967 agreement, since January 27, 1965 Permatwist's compensation for the sale of their inventions has been limited to the sharing of production royalties" and "prices

for stretch yarn machinery have been set exclusively by Leesona." (emphasis supplied) (Leesona's memo at pate 4, docket 1700)

(2) Reveal that the false twist machinery sales provisions were designed to insure that Permatwist received its sales price for the assignment of the three single heater patents to Leesona.

(3) Disclose that the December 14, 1954 agreement between Permatwist and Leesona (Universal Winding Co.) was designed expressly to come within the provision of §1235(a) of the 1954 Internal Revenue Code.

(4) Do not establish that Leesona and Permatwist were competitors in the false twist machinery business nor that Leesona and Permatwist were substantial potential competitors in the procurement and exploitation of patents involving false twist technology.

(5) Clearly show that the December 14, 1954 agreement did not set prices to be charged by competing machinery manufacturers.

INTERPRETATION OF AGREEMENTS

To summarize the Court's analysis of the agreements, by the December 14, 1954 agreement Permatwist represented it was the owner of the false twist process, processes and apparatus for producing crimped, fluffed and wavy nylon and other yarns from thermoplastic yarns by insertion of twist into the thermoplastic yarns and its removal immediately thereafter by the same spindle as part of the same process and for other thermal processing, and of the three then pending applications for the single heater patents relating to the "invention", (Par. 1(A) and (b), p.2 of Exhibit A). In this agreement Permatwist and Leesona (then Universal Winding Co.) referred to the false twist processes, apparatus, and the yarns produced thereby as the "invention." Permatwist purported to sell to Leesona the single heater patent applications and any other patent applications that might be filed with respect to the invention and any other patents granted on

applications thereafter filed relating to the invention. (Paragraph 4(g)(iii), p. 14 Exhibit A). For the alleged transfer of the Permatwist false twist patent applications Leesona agreed to pay Permatwist a consideration which includes a share of the agreed-upon fixed selling price for machinery manufactured by Leesona and said to embody the inventions of both the transferred Permatwist patent rights and Leesona's own related patent rights. (Exhibit A, ¶ 3B, p. 7 and ¶ 3C). The December 14, 1954 pooling agreement committed Leesona to license only those machinery manufacturers who would agree that purchasers of their machines must first secure from Leesona a user license at an agreed upon fixed running royalty rate per pound of yarn produced (Exhibit A, ¶ 3D). Leesona then must pay to Permatwist 50% of the royalties collected pursuant to the license agreements on the patent applications, processes, and apparatus *transferred* to Leesona (Universal) by Permatwist or under the process *invented by* Leesona (Universal) and by the use of the machines, or equipment manufactured by Leesona (Universal) or caused to be manufactured by Leesona (Universal) for it. [Exhibit A, ¶ 3B(A) and (A)(i)]. An exception to the fixed royalty for a user license exists in the 1954 agreement for the Leesona Model 550 which was sold only when accompanied by a royalty free limited license. [Exhibit A, ¶ 3D].

Upon Leesona's (Universal's) filing for an application on the High Speed Spindle patent and the parties on October 17, 1958 agreed upon modification of the December 14, 1954 agreement with respect to price, royalty, and participation in the agreement. (Exhibit B "whereas" clause 5, p. 1). Fixed machine sale prices were arrived at for (a) the high speed spindle and conversion parts for installation as a replacement spindle on present 550 machines, (b) the high speed spindle for installation as replacement spindles on Fluflon apparatus together with conversion parts, (c) the complete continuous process false twist 550 type machine incorporating said High Speed Spindle (Model 552 machine) and (d) the complete continuous process false twist Fluflon type attachment incorporating the high speed spindle. [Exhibit B, ¶ 2 at pp. 2 and 3]. The 1958 agreement

perpetuated the provisions of the December 14, 1954 agreement with respect to the fixed sales price for Leesona Model 550 machines said by Leesona to utilize the invention of the Hilbert low speed spindle 2,791,086 and inventions of the single heater Permatwist patents and with respect to the Model 994 machines said by Leesona to utilize inventions of the single heater patents. [10J(2) Fact 20 agreed upon by Leesona and plain from the face of paragraph 1 and 7 of the October 17, 1958 agreement]. By express provision in paragraph 5 of the 1958 agreement [Exhibit B] Leesona must refuse to sell machines including high speed spindles or the spindles themselves unless the purchaser accepts a license agreement requiring the payment of a running royalty at a fixed rate.

In September of 1960, Leesona was ready to offer for sale its Model 553 high speed spindle machine. Leesona and Permatwist entered into an agreement to determine the initial sale price of new and improved high speed spindle machine (Machine 553) and the portion of the proceeds from the sale of the 553 machine to be paid to Permatwist. [Exhibit C, 3rd "whereas" paragraph]. The agreement sets the initial price to be charged for the Model 553 machine and Permatwist's share of the proceeds [Exhibit C, ¶ 1 and 2]. Section three of the agreement continues in effect the policy of refusing to sell high speed spindle machinery to customers who do not accept a user license at a fixed royalty rate. Except as modified by the supplemental "high speed spindle" price fixing provisions in 1958 and 1960, the price fixing provisions of the 1954 agreement remain in effect under the 1960 agreement. [Exhibit C, ¶ 3, p.2].

Then with the December 15, 1965 letter agreement, Leesona and Permatwist recorded their understandings and agreements with respect to machine royalties which were arrived at during the patentees January, 1964 meeting and in subsequent modifications. In January of 1964, the patentees had agreed that (a) Leesona would continue to pay the $30.38 machine royalty for the Model 553; (b) Permatwist would waive in the United States and Canada payment of machine royalties for the proposed new machine, Model 554, for a period of two years

following the first delivery to a purchaser of a production Model 554 machine (not including the delivery of a prototype, experimental machine) and

(c) Further waiver and suspension machine royalty payments is to be reconsidered six months prior to the end of the two-year period and annually thereafter, it being agreed that waiver or suspension of machine royalty payments shall continue for additional periods of one year unless and until competitive conditions with respect to the sale of Leesona's stretch yarn machines are materially more favorable to Leesona in January, 1964. Exhibit E and p. 2.

As further set forth in the December, 1965 letter agreement, subsequent to January 1964 Leesona encountered delay in initiating commercial production of a new model machine. To encourage production of the Model 553 machine until an improved machine could be developed and sold, Leesona and Permatwist in July of 1964 entered into an agreement waiving and suspending all machine royalties on further sales of the Model 553 in the United States and Canada.

Near the conclusion of 1964, Leesona considered it desirable to design a new machine, the Model 555, rather than to continue work on the Model 554. The major intent of the parties to the December 15, 1965 letter agreement is that "wherever reference is made to the Model 554 machine in the agreements previously described, such reference is intended and shall be interpreted to include the Model 555 and/or any other model of stretch yarn thereafter developed by Leesona." This letter agreement temporarily halts Permatwist's right to receive a machine royalty, a portion of the machine sales price. The provisions of the 1954 agreement as modified in 1958 and 1960 which fix the ultimate machine sale price and those which fix the price of a license were not cancelled by the December, 1965 letter agreement.

Neither did the June 1967 letter agreement terminate these provisions [Exhibit F, ¶ 8 and 9]. As the agreement provides in ¶ 8, "Permatwist and Leesona agree that this agreement is not intended to alter in other respects the existing agreements

between the parties with respect to processes and apparatus for producing crimped, fluffed and wavy nylon and other yarns from thermoplastic yarns and for other thermal processing." The June 1967 agreement merely suspends Permatwist's receipt of a machine royalty on stretch yarn machines sold to customer sin the U.S.A. and Canada unless Leesona sells the "stretch yarn machines at a net selling price resulting in a gross margin significantly in excess of the gross margin then regarded by Leesona as its normal gross margin on other comparable textile machinery manufactured AND sold by it" [Exhibit F, ¶ 1, 4 and 7] and makes special provisions for machines sold outside the United States and Canada.

[13] The Court's interpretation of the 1954, 1958, 1960, 1965 and 1967 agreements applies the standards of interpretation in Restatement of Contracts § §230, 35 (1932). These agreements were couched in plain and unambiguous language thus their interpretation was a matter for the Court. *United States v. Taylor*, 293 F.2d 717, 722 (5th Cir. 1961); *Ammons v. Franklin Life Insurance Company*, 348 F.2d 414, 416 (5th Cir. 1965).

SECTION 1 OF THE SHERMAN ACT

[14, 15] Although a single patentee may fix the price a licensee of the pattent charges for the patented device, *United States v. General Electric Co.*, 272 U.S. 476, 47 S.Ct. 192, 71 L.Ed. 362 (1926), whenever

> . . . a patentee uses his patent as whole or part consideration in a contract by which he and another or other patentees in the same patent field arrange for the practice of any patent involved in such a way that royalties or other earnings or benfits from the patents are shared among the patentees, parties to the agreement, subjects that contract to the prohibitions of the Sherman Act whenever the selling price, for things produced under a patent involved, is fixed by the

> contract or a license, authorized by the contract. *United States v. Line Material*, 333 U.S. 287, 315, 68 S.Ct. 550, 564, 92 L.Ed. 701 (1948); *cf. United States v. New Wrinkle*, 342 U.S. 371, 72 S.Ct. 350, 96 L.Ed. 417 (1952).

With the 1954, 1958 and 1960 agreements Permatwist and Leesona combined their patent monopolies in the same patent field to secure by contractual agreement control of the sale price of the patented devices and control of the sale price [royalty rate] for licenses under the combined patents. As in *Line Material*, Permatwist and Leesona utilized their respective patents as consideration for the 1954, 1958, and 1960 agreements with fix the selling price for things produced under the involved patents.

The patentees urge that the 1954, 1958 and 1960 agreements do not come within the prohibitions of Section One of the Sherman Act, 15 U.S.C. §1, because Leesona and Permatwist have never been competitors in the false twist machinery business nor substantial competitors in the procurement and exploitation of patents involving false twist technology. This argument has initial appeal as the United States Supreme Court has repeatedly held that the purpose of the Sherman Act is to maintain free competition in interstate commerce. *E.g., American Column & Lumber Co. v. United States*, 257 U.S. 377, 42 S.Ct. 114, 66 L.Ed. 284 (1921).

[16] Achievement of this goal may be prevented, however, by price fixing agreements between non-competing patentees. This conclusion is suggested by the Court's statement in *Line Material* that

> Where two or more patentees with competitive, non-infringing patents combine them and fix prices on all devices produced under any of the patents, competition is impeded to a greater degree than where a single patentee fixes prices for his licensees. The struggle for profit is less acute. *Even when, as here, the devices are not commercially competitive because the subservient patent cannot be practiced without consent of the dominant, the statement holds good. The stimulus to seek*

competitive inventions is reduced by the mutually advantageous price fixing arrangement. (emphasis added) *United States v. Line Material, supra* at 311, 68 S.Ct. at 562.

Further as the Fifth Circuit has stated, "that the defendants do not compete with each other in no way precludes them from combining or conspiring to suppress competition, the ultimate result of which would insure to their mutual benefit." *Battle v. Liberty National Life Insurance Company*, 493 F.2d 39, 44 (5th Cir. 1974). The alleged lack of competition between Leesona and Permatwist does not remove the contractual agreements of 1954, 1958 and 1960 from censure under Section One of the Sherman Act.

[17, 18] This restraint remains even if as alleged by Leesona the false twist machinery sale price provisions were designed to insure Permatwist's receipt of its sale price for the assignment of the three single heater patents and to come within the provision of §1235(a) of the 1954 Internal Revenue Code. The Internal Revenue Code does not grant an exception to the antitrust laws.

In another attempt to prevent application of the Sherman Act, Leesona asserts that the false twist machinery provisions of the 1954, 1958 and 1960 agreements have been superceded by the Leesona-Permatwist letter agreements of December 15, 1965 and June 5, 1967. As summarized in the memorandum in opposition to the motion for partial summary judgment (docket 1700 at p. 4) Leesona's position on this argument is "under the January 27, 1965 agreement *made permanent* by the June 13, 1967 agreement since January 27, 1965 Permatwist's compensation for the sale of their inventions has been limited to the sharing of production royalties" (emphasis supplied) and "prices for stretch yarn machinery have been set exclusively by Leesona." Albert Davis, patent counsel for Leesona, has sworn by affidavit of October 3, 1973 that since the December 15, 1965 letter agreement prices for Leesona's false twist texturing machinery have been set exclusively by Leesona.

[19] Subsequent to the November 20, 1974 hearing on Celanese's motion for reconsideration, Leesona filed a second affidavit of Mr. Davis for the purpose of explaining his

previously filed affidavit. Celanese has objected to consideration of the second affidavit and the Court finds this affidavit inadmissible. The motion for reconsideration was filed on April 30, 1974 (docket 2560) and counsel were notified of the November 20, 1974 hearing on November 13, 1974. With several months to respond to the Celanese motion and a full week notice of the hearing, Leesona's delayed submission of the affidavit, without a request for exception to the time requirement of Federal Rules of Civil Procedure 56(c), cannot remotely be considered excusable neglect. *See Beaufort Concrete Company v. Atlantic States Construction Co.*, 352 F.2d 460, 462 (5th Cir. 1965).

[20] The December 1954, October 1958, and September 1960 agreements to fix prices on articles covered by Permatwist's and Leesona's respective patents are outside the patent monopoly and unlawful *per se* under Section 1 of the Sherman Act. *United States v. Line Material*, 333 U.S. 287, 68 S.Ct. 550, 92 L.Ed. 701 (1948). The patents involved, as set forth in 10J(2) fact No. 11, are essential to the Leesona-Permatwist conspiracy to violate the antitrust laws and thus unenforceable until the misuse is purged. As ealier stated, the 1965 and 1967 letter agreements did not eliminate the contractual provisions of the 1954 agreement as modified in 1958 and 1960 which fix the ultimate machine sale price. Therefore, a showing by the Davis Affidavit that the price fixing provisions for the ultimate machine sale price have not been enforced since December of 1965 does not dissipate patent misuse. *See Hensley Equipment Co. v. Esco Corp.*, 383 F.2d 252 (5th Cir. 1967). *See also Copper Liquor Inc. v. Adolph Coors Co.*, 506 F.2d 934 (5th Cir. 1975).

In another attempt to show that the patent misuse has been purged, Lex-Tex, Ltd. alleges that "there is no evidence that Lex-Tex, Ltd. has any illegal agreements which would be violative of Section 1 of the Sherman Act at the present time nor at any other time since its acquisition of the double heater patents in September of 1967." Lex-Tex., Ltd., however, has not briefed for the Court the legal issue of whether solely prospective elimination of price fixing provisions in a contract purges prior

patent misuse. Of equal importance, the meaning of Exhibit G, the agreement of September 22, 1967, appears to be a question of fact but this determination should not be made without the assistance of memoranda by counsel.

[21] The double heater patents as well as the other patents set forth in 10J(2) fact No. 11 are unenforceable. Lex-Tex, Ltd. as the double heater patent owner has the burden of proving to the Court that the double heater patent misuse has been purged. This issue may be presented to the Court at a future time.

As a second ground for summary judgment, independent of the contractual provisions which fix the ultimate machine sale price, Celanese seeks to have the 1954 agreement as amended in 1958 and 1960 and by the letter agreements held illegal *per se* because the price of licenses to use the patented machinery has been and is now fixed. If the price of the licenses is fixed Celanese reasons then an important part of the machine sale price is fixed. As stated by the Court in *Standard Oil Co. v. United States*, 283 U.S. 163, 174, 51 S.Ct. 421, 425, 75 L.Ed. 926 (1930).

> The rate of royalties may, of course be a decisive factor in the cost of production. If combining patent owners effectively dominate an industry, the power to fix and maintain royalties is tantamount to the power to fix prices . . . *Where domination exists*, a pooling of competing process patents, or an exchange of licenses for the purpose of curtailing the manufacture and supply of an unpatented product, is beyond the privileges conferred by the patents and constitutes a violation of the Sherman Act. [Emphasis added].

After review of fact 45 of Section III(A) of the Court's Order of April 25, 1974, the Court finds that a fuller factual development on the question of the patentees' domination of the industry is required; partial summary judgment on Celanese's second ground is inappropriate.

Accordingly, each of the spindle patents 2,791,086, 3,044,247, and 3,134,218; each of the double heater patents 3,077,724 and 3,091,912; and each of the single heater patents 2,803,105, 2,803,108 and 2,803,109 have been misused and are unenforceable.

James Crabtree, Smathers & Thompson, Miami, Fla., and Edward S. Irons, Washington, D.C., also David Rabin, Greensboro, N.C.

ORDER VACATING SECTIONS I and II OF THE MAY 3, 1974 ORDER

ATKINS, District Judge.

Sections I and II of this Court's order of May 3, 1974 declared invalid the '912 patent because the subject matter of the invention had been sold before the critical date of April 19, 1956. Title 35, United States Code, §102(b). Additionally, in Section II the Court held that the inventors Seem and Stoddard had abandoned the invention claimed in the '912 patent before the application was filed.

[1] Under Title 35, United States Code, §102(b), a "sale" one year prior to application for a patent results in an invalid patent. *Egbert v. Lipmann*, 104 U.S. 333, 26 L.Ed. 755 (1881). The existence of a sales contract plus the reduction of the invention to a reality, in the sense it is beyond experimentation, constitutes the placing "on sale" required by the statute. *In re Yarn Processing Patent Validity Litigation*, 498 F.2d 271, 277 (5th Cir. 1974); *Hobbs v. United States Atomic Energy Commission*, 451 F.2d 849 (5th Cir. 1971).

[2, 3] This Court decided on May 3, 1974 that the 1954 sales agreement between Permatwist and Leesona Corporation included the invention disclosed in the '912 patent.[1] A sale of the invention does not place the invention "on sale" within the meaning of the statute if the sale is primarily for experimental purposes. *In re Yarn Processing Patent Validity Litigation, supra* at 286. Proof of commercial exploitation shifts the burden to the inventor to prove that the purpose was primarily experimental. *Id.*

1. *See* Transcript of May 5, 1975 Hearing before this Court at pages 74-76.

Counsel for Lex Tex admitted the invention which was the subject of the '912 patent was reduced to practice prior to 1954. The Court defined reduction to practice as follows:

> If experimentation is continuing in order to show the invention's utility, the invention has not been reduced to practice and a sale under these circumstances would not bring §102(b) into play. Conversely if the invention has been reduced to practice, the invention is ready for patenting and a sale more than one year prior to the critical date will prevent the issuance of a patent,[2]

Accordingly, the inevitable conclusion was that the '912 patent was invalid pursuant to Title 35, United States Code, §102(b).

Shortly after entry of the May 3, 1974 order Lex Tex filed a motion for reconsideration on the ground that its counsel when utilizing the term "reduction to practice" had employed the definition advanced in ***Hunt Industries, Inc. v. Fibra Boats, Inc.***, 299 F.Supp. 1145, 1150 (S.D. Fla. 1969)[3] which allegedly differs from the Court's definition. Lex Tex submitted with its motion for reconsideration a supplemental interrogatory 45(b) which considered two definitions. It states:

> (b) With respect to both patents (3,077,742 and 3,901,912) some time in the period between May of 1952 and February 1954 (date of first reduction to practice of the invention defined by each claim) providing that "reduction to practice"

2. May 3, 1974 Order on Remaining Summary Judgments, pae 4.

3. "To establish a reduction to practice of the inventor's idea, there must be a demonstration that the inventor's idea works; that the invention will perform in a manner which will accomplish its intended purpose. *R.C.A. v. International Standard Electric Corp.*, 232 F.2d 726 (3 Cir. 1956). And there may be an experimental use even following reduction to practice where the experiments are part of an attempt to further refine the device. *Atlas v. Eastern Air Lines, Inc.*, 311 F.2d 156 (1 Cir. 1962)."

This Court does not believe the above-recited definition of "reduction to practice" varies significantly from its definition. Istead, *Hunt Industries, Inc.* diverges from the Court's May 3, 1974 opinion when treating the consequences of reduction to practice. Nevertheless, for the reasons recited in the instant opinion reliance will not be placed on the mere use of the term "reduction to practice."

> is defined so that it may occur as a result of making and testing laboratory devices alone, but in the event that the meaning of "reduction to practice" is construed so that it can occur only after completion of *all* experiments or tests relating to the practical utility of a device under normal trade operating conditions then with respect to both patents reduction to practice occurred some time in the period between 4/1956 and 8/1957, the reduction to practice of the 734 patent occurring in the latter half of this period. [emphasis and parenthesized language added].

This supplemental interrogatory anticpated the Fifth Circuit's decision in ***In re Yarn Processing Patent Validity Litigation, supra.*** The Appellate Court for heuristic purposes developed a four phase model of the development of a typical invention. The earliest phase is the mental conceptualization of the idea by the inventor. In the second phase the inventor embodies his idea in a physical model or prototype thus reducing it to reality. Then, the third phase begins in which the inventor experiments with the model to satisfy himself that it needs no further refinement and to prove its fitness for the intended purpose, utility. At the conclusion of phase three, the inventor may seek a legal monopoly by filing his patent application. *Id.* at 274-275.

As presented in ***In re Yarn Processing Patent Validity Litigation*** there are two lines of authority with differing definition of "reduction to practice":

> The first, adopting the legal definition, holds that "reduction to practice" does not occur until the inventor has had a reasonable time after reduction of the invention to reality (i.e., after the end of phase two) to experiment. During this period, an incidental public use or sale will not bar the patent. The second line, equating "reduction to practice" with the initial reduction of the invention to reality, permits a subsequent experimental period of reasonable duration. It would be possible to juxtapose the first line's prohibition of post-reduction-to-practice experimentation with the second's definition of "reduction to practice" and arrive at the rigid rule that there can be no experimental period after the first working

model or prototype has been constructed. This, in effect, would read out of the law the reasonable period of phase three experimentation sanctioned under either line of cases. *Id.* at 282.

Lex Tex urges that the May 3, 1974 order superimposes the first line's post-reduction-to-practice experimentation ban on counsel's use of the second definition, thus eliminating the permissible period of experimentation. According to Lex Tex, supplemental interrogatory 45(b) when read in conjunction with the *In re Yarn Processing Patent Validity Litigation* Opinion mandates vacating Sections I and II of the May 3, 1974 order.

Counsel for Celanese and FII suggest that there are not two different definitions of reduction to practice but instead two conflicting philosophies on the consequences of reduction to practice. They also argue the panel decision in *In re Yarn Processing Litigation* conflicts with the opinion in *Hobbs v. United States Atomic Energy Commission.* Since one panel of the Court cannot overrule another, *United States v. Lewis*, 475 F.2d 571 (5th Cir. 1972) counsel urge this Court not to follow *In re Yarn Processing Patent Validity Litigation.*

After conscientious review of *Hobbs* and the cases cited therein as well as *General Motors Corp. v. Bendix Aviation Corp.*, 123 F.Supp. 506 (N.D. Inc. 1954) and the line of case following it, this Court agrees with *In re Yarn Processing Patent Validity Litigation* that two definitions of reduction to practice exist. It would therefore be attaching unwarranted significance to semantics if Sections I and II of the May 3, 1974 order were maintained solely because during argument counsel for Lex Tex admitted the invention was reduced to practice prior to 1954.

Under *Hobbs* reduction to practice is not reached until the physical embodiment of the invention, the model, has been tested sufficiently to demonstrate its utility.[4] While the *General Motors Corp. v. Bendix Aviation Corp.* line equates existence of the physical model with reduction to practice, then tests for utility

4. This includes tests not only to put the invention into definitive form, but also to see whether the inventor's ideas are worth exploiting. *See* te reference to field tests in *Minnesota Mining and Manufacturing Co. v. Kent Industries, Inc.*, 409 F.2d 99 (6 Cir. 1969).

follow. According to *In re Yarn Processing Patent Validity Litigation*, although the definitions differ, the scope of permissible experimentation is the same for both lines of cases, experimentation which is the inventors primary objective[5] may continue if it is reasonably necessary to test the invention's utility or to determine whether further refinement is needed.

This Court ascertains a conflict between the extent of allowable experimentation recognized by *Hobbs* and *In re Yarn Processing Patent Validity Litigation. In re Yarn Processing Patent Validity Litigation* extends experimentation beyond the *Hobbs* tests which end where the invention has been adequately tested to demonstrate utility and instead continues experimentation until the inventor is satisfied *no* further refinement is needed.[6] The enlarged scope of experimentation provides two standards: total refinement of the invention before the public's right to vest it defeasibly and to become indefeasible in one year if an application is not timely filed, Title 35, United States Code, § 102, and something less for the invention date. Title 35, United States Code, § § 101, 112. The need to choose between the conflicting panel decisions arises only if it is known on what date the invention was sufficiently tested to prove its fitness for the

5. This is opposed to a sale primarily for commercial exploitation.

6. Counsel for Celanese and FII defines the conflict between *Hobbs* and *In re Yarn Processing Patent Validity Litigation* as follows:

> The conflict between *Hobbs* and the *Yarn Processing* cases is not just in the further refinement area. It is in the doctrine of the yarn processing that permits this inventor to enjoy an experimental exception even though a working model or prototype, a phase 2 device, a 101 utility device has been achieved. As long as his announced purpose is to *further refine it* or *demonstrate further utility.* And *Hobbs* flatly refused an experimental exception once the working model was achieved. Transcript of 5/20/75 Hearing at p. 114.

Contrary to counsel's above recited position, the Court believes that tests which adequately demonstrate utiity for Hobbs and tests which are "reasonably necessary for demonstrating the devices utility" *In re Yarn Processing Patent Validity Litigation* are completed at the same time. The only conflict exists in the *In re Yarn Processing Patent Validity Litigation's* extension to "lack of need for further refinement."

intended purpose, *Hobbs v. United States Atomic Energy Commission, supra*, and if this date differs from the time when the inventor is satisfied that no further refinement is needed. *In re Yarn Processing Patent Validity Litigation, supra.*

[4] As earlier stated, the decision that the 1954 agreement between Permatwist and Leesona Corporation was a sale shifted the burden to Lex Tex to prove that the purpose was primarily experimental. Nevertheless, this Court is mindful of the Fifth Circuit's emphasis that the experimental use issue is a question of fact, depending on the inventor's state of mind. "When commercialization of the invention is alleged, it requires a weighing of two motives—experimentation and profit—that may coexist, because the experimental use exception applies if the experimental motive predominates." *Id.* at 288. Lex Tex's supplemental interrogatory 45(b) states that all experiments or tests relating to practical utility of the invention were not completed until 1956 through 1957. Whether experimentation "reasonably necessary" for demonstrating the device's utility *Id.* at 282 or sufficient to demonstrate the invention's utility, *Hobbs v. United States Atomic Energy Commission, supra*, terminate prior to this time can only be determined by a factual evaluation.

Counsel for Universal Textured Yarns argues that the 1954 agreement as well as Mr. Seem's testimony during the litigation between Leesona and Deering Milliken Research Corporation in 1961 conclusively reveal that the invention was beyond the *Hobbs* experimental period in 1954. Particular stress is placed on Mr. Seem's deposition of June 12, 1959, at page 53, starting at line 3:

Q. This process and apparatus for post-treating elasticized or stretch yarn which you testified was in being prior to your agreement with Universal Winding—that is Leesona—was that apparatus and process disclosed in any issued United States letter patent?

A. Not specific.

Q. Would you like to see the patent? (document handed to witness).

A. Apparatus basically the same as covered by U.S. patent 2,864,229 was in existence prior to November 23, 1954. It was not identical but it *performed the same process and produced the same results.*

This testimony leaves open the possibility that during and subsequent to November of 1954, the inventor was engaged in testing his invention to determine if his purpose was accomplished.

Statements in the Permatwist brief filed in the Brooklyn litigation that prior to 1954 a specific method of thermally processing Torque stretch yarn was "reduced to practice" do not aid in the determination of when Hobbs experimentation was completed; the term "reduction to practice" is ambiguous. The explanation by counsel of Leesona's switch from the use of "post treating process" terminology to "single heater process" will be valuable during a determination of the facts.

Accordingly, this Court believes it is necessary to vacate its holding of invalidity of the '912 patent pursuant to Title 35, United States Code, § 102(b) in Sections I and II of the May 3, 1974 order.

[5] Re-examination of the holding in Section II that the invention claimed in the '912 patent was abandoned must follow. Although the term "abandonment" was used in the May 3, 1974 order the Court intended to utilize "forfeited"; Celanese and FII's motion for summary judgment raised the issue of forfeiture. A person forfeits the right to a patent because of *designed* delay in filing for a patent while abandonment contemplates deliberate, although not necessarily an express, surrender of any right to a pattent. *Levinson v. Nordskog Company, Inc.*, 301 F.Supp. 589 (C.D. Cal. 1969).

[6, 7] The purposeful unwarranted delay in seeking a patent necessary for a holding of forfeiture can occur only after the inventor possesses an invention capable of patenting. *Id.* at 590, 2 *Diller's Walker on Patents*, § 150 at 718 (2 ed. 1964). Since this Court has held it remains a question of fact as to when the experimental period was completed for the invention which is the subject of the '912 patent, the time when the inventor should

have filed his patent application is unknown. Consequently, the holding of forfeiture in Section II must be vacated as the Court cannot presently determine if there was undue delay in filing the patent application.

It is for the aforesaid reasons

Ordered and adjudged that Sections I and II of the May 3, 1974 order are vacated and the motions for summary judgment treated therein are denied on all grounds. It is further

Ordered and adjudged that this Court denies certification under Title 28, United States Code, §1292 as it does not believe an appeal from this order will materially advance the ultimate termination of the litigation. This Court is, however, aware of the dichotomy, as delineated on pages 5 and 6 of this order between the holding in *Hobbs* and *In re Yarn Processing Patent Validity Litigation* by which it appears that one panel of the Fifth Circuit Court of Appeals has overruled a previous panel's decision, creating conflict in an important area of the law.

APPENDIX 3

[2683] 4085 [2683]

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

NO. 71-83-Civ-CA

LEX TEX LTD. INC.	:	
Plaintiff,	:	
-vs-	:	ORDER OF DISMISSAL
	:	
UNIVERSAL TEXTURED YARNS, INC. & G. ALLEN MEBANE, INDIVIDUALLY	:	
Defendants	:	

This Court having determined that the patents on which this cause is premised are, in fact, unenforceable, the complaint, *sua sponte*, is hereby dismissed.

DONE AND ORDERED at Miami, Florida this 29th day of August, 1974.

[illegible]
United States District Judge

[2684] 4086 [2684]

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

NO. 71-84-Civ-CA

LEX TEX LTD. INC.	:	
Plaintiff,	:	
-vs-	:	ORDER OF DISMISSAL
	:	
CONCORDIA MANUFACTURING	:	
CO. INC. & PAUL O.	:	
BOGHOSSIAN JR.	:	
Individually	:	
Defendants.	:	

This Court having determined that the patents on which this cause is premised are, in fact, unenforceable, the complaint, *sua sponte*, is hereby dismissed.

DONE AND ORDERED at Miami, Florida this 29th day of August, 1974.

[illegible]
United States District Judge

[2689] 4091 [2689]

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

NO. 72-941-Civ-CA

LEX TEX LTD. INC.	:	
Plaintiff,	:	
-vs-	:	ORDER OF DISMISSAL
	:	
GOLD MILLS, INC.	:	
Defendants.	:	

This Court having determined that the patents on which this cause is premised are, in fact, unenforceable, the complaint, *sua sponte*, is hereby dismissed.

DONE AND ORDERED at Miami, Florida this 29th day of August, 1974.

[illegible]
United States District Judge

[2688] 4090 [2688]

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

NO. 72-940-Civ-CA

LEX TEX LTD. INC.
Plaintiff,

-vs-

BURLINGTON INDUSTRIES, INC.
Defendants.

ORDER OF DISMISSAL

This Court having determined that the patents on which this cause is premised are, in fact, unenforceable, the complaint, *sua sponte*, is hereby dismissed.

DONE AND ORDERED at Miami, Florida this 29th day of August, 1974.

[illegible]
United States District Judge

[2685] 4087 [2685]

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

NO. 71-385-Civ-CA

LEX TEX LTD. INC.
Plaintiff,

-vs-

HIALEAH KNITTING MILLS, INC.
Defendants.

ORDER OF DISMISSAL

This Court having determined that the patents on which this cause is premised are, in fact, unenforceable, the complaint, *sua sponte*, is hereby dismissed.

DONE AND ORDERED at Miami, Florida this 29th day of August, 1974.

[illegible]
United States District Judge

[2701] 4099 [2701]

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

NO. 72-1643-Civ-CA

LEX TEX LTD. INC.
Plaintiff,
-vs-
BOBBIE BROOKS INC.
Defendants.

ORDER OF DISMISSAL

This Court having determined that the patents on which this cause is premised are, in fact, unenforceable, the complaint, *sua sponte*, is hereby dismissed.

DONE AND ORDERED at Miami, Florida this 29th day of August, 1974.

[illegible]
United States District Judge

[2705] 4103 [2705]

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

NO. 72-1720-Civ-CA

LEX TEX LTD. INC.
Plaintiff,
-vs-
GEORGIA GRIFFIN FASHIONS, INC.
Defendants.

ORDER OF DISMISSAL

This Court having determined that the patents on which this cause is premised are, in fact, unenforceable, the complaint, *sua sponte*, is hereby dismissed.

DONE AND ORDERED at Miami, Florida this 29th day of August, 1974.

[illegible]
United States District Judge

[2706] 4101 [2706]

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

NO. 72-1726-Civ-CA

LEX TEX LTD. INC.
Plaintiff,
-vs-
LUANA KARR
Defendant.

ORDER OF DISMISSAL

This Court having determined that the patents on which this cause is premised are, in fact, unenforceable, the complaint, *sua sponte*, is hereby dismissed.

DONE AND ORDERED at Miami, Florida this 29th day of August, 1974.

[illegible]
United States District Judge

[2704] 4102 [2704]

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

NO. 72-1719-Civ-CA

LEX TEX LTD. INC.
Plaintiff,
-vs-
SERBIN FASHIONS INC.
Defendant.

ORDER OF DISMISSAL

This Court having determined that the patents on which this cause is premised are, in fact, unenforceable, the complaint, *sua sponte*, is hereby dismissed.

DONE AND ORDERED at Miami, Florida this 29th day of August, 1974.

[illegible]
United States District Judge

[2702] 4100 [2702]

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

CASE NO. 72-1656

LEX TEX LTD. INC.
Plaintiff.
-vs-
IRWIN REDMOND
Defendant.

ORDER OF DISMISSAL

This Court having determined that the patents on which this cause is premised are, in fact, unenforceable, the complaint, *sua sponte*, is hereby dismissed.

DONE AND ORDERED at Miami, Florida this 29th day of August, 1974.

[illegible]
United States District Judge

APPENDIX 4
UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

NO. 71-1026-Civ-CA

MDL DOCKET NO. 82

IN RE YARN PROCESSING PATENT VALIDITY LITIGATION

CELANESE CORPORATION and FIBER INDUSTRIES, INC.

Plaintiffs,

v.

LEESONA CORPORATION, *et al.*,

Defendants

FINAL JUDGMENT

The plaintiffs, Celanese Corporation and Fiber Industries, Inc., having filed various motions for summary judgment; and

The Court by its orders of April 25 and May 3, 1974 having to the extent indicated in said orders, (i) granted the aforesaid motions filed by plaintiffs, and (ii) granted additional motions for summary judgment filed in other cases in this consolidated proceeding; and

The Court having determined that there is no just reason for delay in entering a final judgment under Rule 54(b) of the Federal Rules of Civil Procedure,

IT IS ORDERED AND ADJUDGED that:

1. Defendant, Leesona Corporation, has entered into contracts and engaged in a combination and conspiracy in unreasonable restraint of interstate trade and commerce in violation of Section 1 of the Sherman Act (15 U.S.C. § 1).

2. Defendant, Leesona Corporation, has monopolized and attempted to monopolize interstate trade and commerce in

the licensing of false twist texturing operations in violation of Section 2 of the Sherman Act (15 U.S.C. §2).

3. United States Letters Patent 2,803,105, 2,803,108, 2,803,109, 2,791,086, 3,044,247 and 3,134,218 have been misused by defendant, Leesona Corporation, and are therefore unenforceable.

4. The injunctive provisions of Paragraphs 5 and 6 of this Final Judgment shall apply to defendant, Leesona Corporation, its successors, subsidiaries, assigns, officers, directors, agents and its employees, and to all other persons in active concert or participation with any of them, including, without limitation, the Permatwist Company and each of its partners, Nicholas J. Stoddard, Warren A. Seem, Harold J. Berger and Fred D. Tecce, who received actual notice of this Final Judgment by personal service or otherwise.

5. Defendant, Leesona Corporation, is enjoined and restrained from alleging, orally or in writing, that any of United States Letters Patent Nos. 2,803,105, 2,803,108, 2,803,109, 2,791,086, 3,044,247 or 3,134,218 is enforceable against any of the plaintiffs herein.

6. Defendant, Leesona Corporation, is enjoined and restrained from continuing, reviving or renewing the aforesaid contracts, combination and conspiracy, and is ordered to refrain from enforcing, continuing, reviving or renewing any agreement with a competing seller of false twist machinery which contains provisions for (a) regulation of distribution or the boycotting of trade channels, (b) division of profits or royalties among competitors, or (c) fixing prices or royalties.

7. Count 1 of Leesona Corporation's counterclaim which is "For Patent Infringement by Celanese and Fiber Industries, Inc." is dismissed.

8. Yarn product claims 24 through 28 and 31 of U.S. Patent 3,091,912 include yarn products that are not "new" within the meaning of 35 U.S.C. §101 and hence are overbroad and invalid under 35 U.S.C. §§102 and 282.

9. Plaintiffs are royalty-free licensees under U.S. Patent 3,091,912.

10. The Court, having adjudged that each of the Patents 3,091,912, 3,077,724 and 3,042,011 has been misused both by their former owners and by defendant Lex-Tex of Florida, said patents are unenforceable against any of the plaintiffs herein.

11. The First Counterclaim of defendant, Lex-Tex, for patent infringement is dismissed.

12. Plaintiffs' motion to strike the "Second Counterclaim" and the "Third Counterclaim" of the defendant Lex-Tex is granted.

13. The determination of the issue of attorney's fees and the final allocation and levying of costs are hereby stayed pending disposition of all appeals from this action.

ENTERED at Miami, Florida this 3rd day of September, 1974.

/s/
United States District Judge

APPENDIX 5

In re YARN PROCESSING PATENT VALIDITY LITIGATION.

SAUQUOIT FIBERS COMPANY,
Plaintiff-Appellee,

v.

LEESONA CORPORATION et al.,
Defendants-Appellants.

LEX TEX LTD., INC.,
Plaintiff-Appellant,

v.

HIALEAH KNITTING MILLS, INC., et al., Defendants-Appellees.

LEX TEX LTD., INC.,
Plaintiff-Appellant,

v.

UNIVERSAL TEXTURED YARNS, INC., and G. Allen Mebane, Individually,
Defendants-Appellees.

LEX TEX LTD., INC.,
Plaintiff-Appellant,

v.

CONCORDIA MANUFACTURING CO., INC., and Paul O. Boghossian, Jr., Individually, Defendants-Appellees.

LEX TEX LTD., INC.,
Plaintiff-Appellant,

v.

BURLINGTON INDUSTRIES, INC.,
Defendant-Appellee.

LEX TEX LTD., INC.,
Plaintiff-Appellant,

v.

GOLD MILLS, INC., Defendant-Apopellee.

Nos. 74-3589, 74-3695 to 74-3699.

United States Court of Appeals,
Fifth Circuit.

Nov. 5, 1976.

As Modified on Denial of Rehearing and
Rehearing En Banc Feb. 3, 1977.

Miles Kirkpatrick, Washington, D.C., for Lex Tex Ltd., Inc. and the Permatwist Co., appellants.

John J. McAleese, Jr., Plymouth Meeting, Pa., James L. Armstrong, III, and James W. Crabtree, Miami, Fla., for Lex Tex Ltd., Inc., appellant.

Frederick Rowe, Washington, D.C., Willis H. Flick and James E. Tribble, Miami, Fla., for Leesona Corp., appellant.

Richard G. Schneider, Philadelphia, Pa., William W. Beckett, Washington, D.C., for Sauquoit Fibers Co., appellee.

Gerald Kurland, Cleveland, Ohio, for Hialeah Knitting Yarns, Inc. and Bobbie Brooks, Inc., appellees.

Henry Burnett, Miami, Fla., for Serbin Fashions, Inc. and others, G. Allen Mebane, Gold Mills, Inc. and Burlington Industries, Inc., appellees.

David Klingsberg, New York City, N.Y., for Universal Textured Yarns, Inc., appellee.

David Rabin, Greensboro, N.C., for Universal Textured Yarns, Inc., Concordia Mfg. Co., Inc. and Paul O. Boghassian, Jr., appellees.

John W. Malley and William K. West, Jr., Hugh Latimer, Washington, D.C., for Burlington Industries, Inc.

Appeals from the United States District Court for the Southern District of Florida.

Before GOLDBERG and AINSWORTH, Circuit Judges, and NICHOLS,* Associate Judge.

NICHOLS, Associate Judge:

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*Of the U.S. Court of Claims, sitting by designation.

The caption indicates the styles and docket numbers of the appeals dealt with in this opinion. They were all consolidated for argument; they are appeals taken from summary judgments entered in various patent and antitrust lawsuits which previously had been consolidated in the Southern District of Florida for the purpose of pre-trial proceedings. *In Re Yarn Processing Patent Validity Litigation*, 341 F.Supp. 376 (Jud.Pan.Mult.Lit.1972). Many of these cases have already come before us on the issue of patent validity. *See, In Re Yarn Processing Patent Validity Litigation*, 498 F.2d 271 (5th Cir.), *cert. denied*, 419 U.S. 1057, 95 S.Ct. 640, 42 L.Ed.2d 654 (1974). Approximately fifty lawsuits were originally filed. Some have been settled, some stayed pending the outcome of this appeal, and some are now before us. We dealt separately in Appeal No. 74-3703, 530 F.2d 83 (1976), as to the right of one of the counsel to participate in the cases. Treble damage claims by Leesona Corporation in Appeal No. 74-2835 was slated for separate decision but has now been settled.

[1] After a general statement, applicable to all the cases in this group, we take up separate appeals or groups of appeals that involve common issues. No attempt will be made to bring together here all of the controlling facts involved in the case. Further necessary facts have been set forth in conjunction with the individual appeals. The discussion in the latter parts of the opinion incorporate by reference many of the facts and issues which are discussed in previous parts, and the discussion of the several appeals should read seriatim to make sense. The following facts are set forth simply to identify the parties and place the controlling facts discussed with the individual appeals in their proper context. The major theme which the appeals dealt with in this opinion have in common is the patent abuse doctrine under which a patentee loses the power to enforce a patent if he uses it in violation of the antitrust laws. *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488, 62 S.Ct. 402, 86 L.Ed. 363 (1942); *Carter-Wallace, Inc. v. United States*, 449 F.2d 1374, 196 Ct.Cl. 35 (1971).

The basic false twist process is a method for producing a synthetic yarn which is suitable for weaving cloth. It uses continuous filament fibers which have too little bulk to be woven. The false twist process causes the individual filaments to twist up upon themselves, thus creating yarn that has characteristics of softness and stretchability that are useful for many fabrics. There are different processes but they all involve the application of heat to the fibers as they are twisted over spools. The basic processes which cause the fibers to twist up to the maximum degree use one heater and they are also sometimes referred to as single heater patents. Double heater processes are methods by which the degree of twist imparted to the fibers is controlled by a second heater. The processed yarn is sometimes referred to as textured or crimped yarn. The companies which produce the textured yarn are called throwsters, a term previously used in the silk industry.

Two basement inventors, Nicholas J. Stoddard and Warren A. Seem, invented the false twist process. They had extensive experience in the fiber industry and conducted joint experiments in the mid-1930's. In 1944, a partnership known as Permatwist Company (Permatwist) was formed between the inventors and two financiers, Fred Tecce and Harold Berger. After further experimentation and development, patent applications on the basic false twist process were filed January 4, 1954. The application resulted in United States patents 2,803,105; 2,803,108; and 2,803,109. These single heater patents expired in 1974.

The single heater patent applications were sold later in 1954 to a machinery manufacturer then known as the Universal Winding Company. This Company later changed its name to Leesona Corporation (Leesona), and we will refer to it as such. Under the 1954 areement, Permatwist assigned what were to become single heater patents to Leesona. The agreement fixed a base cost per spindle for the machinery manufactured by Leesona, at this time the Model 550 machine; the sales price per spindle was also fixed. Permatwist would receive as consideration for the assignment a spindle royalty of ½ the margin over base cost

calculated on the basis of the number of spindles capable of operation on machinery sold by Leesona. Leesona was obligated under the terms of the agreement to license other machinery manufacturers under the single heater patents. Furthermore, Leesona also agreed to sell only to licensed throwsters who agreed to pay a use royalty which would be split with Permatwist.

Leesona had developed technology for improved spindles on its machinery at the time the 1954 agreement was executed. Over the next several years, patent applications were filed by Leesona. The principle United States patents issued for the spindles are the 2,791,086 issued in June 1957; and patents for two high speed spindles, the 3,044,247 issued July 17, 1962, and the 3,134,218 issued May 26, 1964. The details of the licensing program have been changed many times in subsequent modifications of the initial Leesona-Permatwist agreement, in 1958, 1960, 1965 and 1967.

The 1958 agreement was made by the same parties to reflect the installation of the Leesona high speed spindles on most of the models. These models and the fixed price per spindle for each model are more clearly identified in the 1958 agreement. Modifications were made in the split between Permatwist and Leesona of the margin over cost. The 1960 agreement was a further modification to reflect the installation of an even more efficient high speed spindle on the Leesona Model 553 machine. The price per spindle was set for this model as well as Permatwist's share of the margin over cost. The 1960 agreement did not effect the similar terms for models manufactured under the 1958 agreement.

Each of the agreements provided a measure of price flexibility for Leesona. For example, the 1954 agreement allowed a price reduction up to 10% of the prices fixed by the agreement. Further reductions required the written consent of Permatwist. Under all the agreements, 1954, 1958 and 1960, Permatwist sold its single heater patents in exchange for both an agreed share of royalty income to be received from licensed throwsters as well as a share of the profits from the sale of machines to be sold at the fixed price.

Beginning in 1964, Leesona began to complain that it could not pay the machine royalties to Permatwist and remain competitive. Specifically, Leesona represented that it would be required by market conditions to introduce a more sophisticated Model 554 machine at the same price as the 553 machine, even though the production cost would be higher for the 554. By letter agreement dated January 21, 1964, Permatwist agreed to suspend the spindle royalty for a minimum two year period only on machines sold for use in the United States and Canada. It continued to receive a set spindle royalty on the 554 for machines sold elsewhere. No mention was made in this agreement of any price fixing terms.

A further agreement, dated December 15, 1965, extended the suspension of spindle royalties to all models developed by Leesona. However, Permatwist was to receive a 5% royalty for machines sold outside the United States, Canada, and the United Kingdom in lieu of the production royalty. The agreement recited Leesona's competitive arguments as the circumstances leading to the modifications. On June 5, 1967, Leesona and Permatwist signed an agreement which made the waiver of spindle royalties permanent subject to later reinstitution if Leesona experienced an increase in its usual gross margin; in that event, the increase or rather excess belonged to Permatwist. The 1967 agreement also reaffirmed the existing agreements.

Throughout this period, Stoddard and Seem continued their work, and they developed double heater processes. Under the terms of the 1954 agreement, Leesona acquired the double heater patent rights which resulted in United States patents 3,091,912 and 3,077,724. However, there were competing patent applications by a French machinery manufacturer known as ARCT and others. Leesona and the French manufacturers agreed not to sue each other for infringement. The Permatwist partners wanted Leesona vigorously to press a licensing program under the double heater patents. Finally, in 1967, Lex Tex Limited (Lex Tex) a North Carolina corporation, was formed to license the Stoddard and Seem double heater patents. The stock was owned by Fred Tecce, a lawyer already mentioned as one of

the Permatwist partners, and by Robert F. Conrad, a trial lawyer working for Leesona. The '912 and '724 patents were assigned to Lex Tex and Lex Tex assumed Leesona's obligation under the 1954 agreement to engage actively in a licensing program for the patents. The largest portion of the royalty income was paid to Permatwist by Lex Tex. Lex Tex subsequently acquired another double heater patent, United States patent, 3,472,011, from Ernest Scragg and Sons, Ltd., a British concern.

Under the terms of the manufacturing licenses, competing machinery manufacturers were paid a portion of the royalty income generated on the machines which had been manufactured and sold by them. As we discuss in more detail in the individual appeals, these royalty "kickbacks" constitute a minimum level of compensation that each manufacturer received for the machines it had made. We use "kickback" for want of a better term, without pejorative intent.

The history of much of this litigation is stated in the opinion of the Judicial Panel on Multidistrict Litigation, *supra*, 341 F.Supp. at 376. In general, the throwsters have repudiated the license agreements which obligated them to pay royalties, contending that the patents are invalid. They sought declaratory judgments holding that the patents are invalid and that the patents have been misused and are unenforceable. In some cases, treble damages and injunctive relief had been sought for alleged antitrust violations. Leesona and Lex Tex have counterclaimed or have filed separate lawsuits for patent infringement and breach of license agreements. After massive discovery, the throwsters filed motions for summary judgment against Leesona, Lex Tex, and the Permatwist partners. Previous motions for summary judgment were granted by the District Court Judge on the issue of patent validity but this court reversed, *supra*, 498 F.2d 271. These motions relate primarily to the antitrust and patent misuse issues although there remains a minor invalidity issue dealt with here.

The first order on the summary judgment motions was entered April 25, 1974, and a corrected order was entered July 11, 1974. In this order, Judge C. Clyde Atkins denied a motion filed by

Celanese Corporation alleging that the acquisition of the Scragg '011 patent was a violation of §7 of the Clayton Act.

In the same order, Judge Atkins granted in part a motion filed by twenty-four New York throwsters and held the single heater patents and the spindle patents unenforceable because of misuse in the hands of Leesona, the then current patent holder. The misuse was predicated on a finding that the manufacturing license agreements violated §§1 and 2 of the Sherman Act. Judge Atkins declined to rule that the violations caused proximate injury to the throwsters for which treble damages are recoverable under §4 of the Clayton Act. Partial summary judgments were entered pursuant to Rules 54(b) and 56. In these judgments, Leesona was enjoined from continuing the violations found by the trial judge. This aspect of the case is the subject of appeal by Leesona in Case No. 74-3589.

Also in this same order, Judge Atkins held the double heater patents misused both by Lex Tex and the former owner, Leesona. A motion filed by Universal Textured Yarns, another major throwster, was granted, and partial declaratory summary judgments were entered pursuant to Rules 54(b) and 56. This aspect of the case is appealed by Lex Tex in Case No. 74-3699.

In the corrected order of July 11, 1974, Judge Atkins overruled the contention of Celanese that the Leesona-Permatwist combination itself operated as a *per se* antitrust offense because of the royalty and price fixing for the machinery. However, in an order dated February 27, 1975, the Judge reconsidered the matter and granted the Celanese motion holding that the double and single heater patents had been misused. This determination had been appealed by Leesona in Case No. 75-2030 and by Lex Tex in Case No. 75-2029; however, these cases have been settled. Although all of these patents had already been declared misused under the order of July 11, 1974, we will consider the grounds stated by Judge Atkins in this subsequent order as support for the previous order.

SAUQUOIT FIBERS COMPANY v. LEESONA CORPORATION, et al.
Case No. 74-3589.

The subject matter of this appeal is the manufacturing licensing system set up by Leesona and Permatwist, under which machinery manufacturers other than Leesona obtained the right to manufacture machines incorporating the various patented processes. We are primarily concerned here with the relationship between the patentee, Leesona, and the machinery manufacturers and the throwsters. In the corrected order of July 11, 1974, Judge Atkins granted a summary judgment holding that the manufacturing license agreements signed by Leesona and the 14 machinery manufacturers violated § § 1 and 2 of the Sherman Act; and, therefore, the single heater and high speed spindle patents used as an integral part of these arrangements have been misused and are unenforceable. The trial judge reserved for the trier of fact the question of whether the plaintiffs have sustained the requisite injury to maintain a treble damage action. The facts upon which the judgment is based have been compiled by the trial judge from the Local Rule 10(J)(2) statements. The following summary of the relevant facts should enable the reader to understand the issues of the case.

We pick up with the 1954 agreement between Leesona and Permatwist. Under that agreement, Leesona and Permatwist shared the royalty income which was derived from the throwsters. In 1954 the royalty was fixed by Leesona and Permatwist at 25¢ per pound.

In 1958 Leesona and Permatwist executed an agreement that required Leesona to sell its machinery only to those throwsters who executed a license providing for production royalties of 6¢ per pound. While the 1954 agreement required Leesona to refrain from preventing other machinery manufacturers from selling to licensed throwsters, the 1958 agreement provided that, in the event payments were made to other manufacturers with Permatwist's consent, Leesona would deduct these from the gross use royalties to be divided with Permatwist.

Under agreements dated April 27, 1955, and October 1, 1958, Leesona obtained patent rights from Heberlein, a competing machinery manufacturer. Heberlein received 15% of Leesona's royalty income under the 1958 agreement. Separate manufacturing license agreements were later negotiated with the machinery manufacturers. These agreements contained "most favored nations" clauses which contemplated the grant of additional manufacturing license agreements by Leesona, in substantially similar form. The manufacturing licensees were licensed free of charge to them and were to receive a 33⅓% share of the royalty collected by Leesona on use of the machines sold by the particular manufacturer. Under the terms of the manufacturing licenses, licensees could sell the machinery only to licensed throwsters. Leesona was allowed to vary the royalty rate exacted from the licensed throwsters, but the percentage of that royalty split with the licensed machinery manufacturers remained fixed. Among machinery manufacturers, only Heberlein and Klinger, another machinery manufacturing licensee, contributed patents or technology to Leesona. The agreements transferring patent rights were independent of the manufacturing license.

The trial judge found that at least 14 manufacturing licenses were issued and the many of the manufacturers accepted the licenses only after the initiation of patent infringement litigation by Leesona. The judge assumed for the purposes of these motions that the single heater and high speed spindle patent claims were valid.

Leesona licensed between 1965 and 1969 the lion's share of the false twist texturizing industry in the United States. Its percentage share of the licensing varied between 72.1% and 80.1% during this period. Further, more than 85% of the royalties received by Leesona during this period were generated on machines manufactured by Leesona. Between 1958 and the time these law suits were initiated in 1969, the production royalties amounted to between two and six times the initial selling price of the machinery.

The throwsters challenged Leesona's practice of sharing royalties with competing machinery manufacturers on several grounds. They asserted that in the late 1950's and early 1960's alternative sources of false twist machinery became available. In order to preserve the production royalties, Leesona and Permatwist needed to insure that no throwster would be in a position to challenge the validity of the patents. Previously, Leesona had been the only source of false twist machinery. Any throwster who desired to challenge the validity of the Leesona patents was placed in an untenable position. Without the machinery, such a throwster could not remain in the business. However, if it obtained a license, it could not, under the licensee estoppel doctrine applied before *Lear, Inc. v. Adkins*, 395 U.S. 653, 89 S.Ct. 1902, 23 L.Ed.2d 610 (1969), bring a challenge in court. The throwsters claimed that by the menace of alternative sources of machinery, Leesona was forced to give its competitors thus a "piece of the action" in order to maintain its grip on the industry. Using the royalty kickbacks as a carrot and the threat of expensive litigation as a stick, Leesona managed to bring its machinery manufacturing competitors into line. Leesona and Permatwist naturally contested all of this. They pointed out that under the trial judge's analysis, the patents are assumed to be valid. They explained that Leesona did not by itself have the capability to market all of the many types of machinery needed to process different varieties of textured yarn suitable for various end uses. The sharing of production royalties was necessary to insure that a sufficient number of machinery manufacturers would enter the market to fill this need, and thereby benefit the throwsters and in turn benefit the Leesona/Permatwist licensing program.

[2] Resolution of these contentions would normally require a remand for trial. For example, there is nothing in the record to establish conclusively the relevant market required to prove monopolization. *United States v. E. I. duPont de Nemours & Co.*, 351 U.S. 377, 76 S.Ct. 994, 100 L.Ed. 1264 (1956). However, for the purposes of determining the existence of a *per se* antitrust violation, market analysis and questions of evil or

laudatory motive are irrelevant. *United States v. Topco Assoc.*, 405 U.S. 596, 92 S.Ct. 1126, 31 L.Ed.2d 515 (1972); *White Motor Co. v. United States*, 372 U.S. 253, 83 S.Ct. 696, 9 L.Ed.2d 738 (1963). The *per se* violations alleged on these facts are price and royalty fixing, illegal customer restrictions, and profit sharing.

CUSTOMER RESTRICTIONS

[3, 4] There is no real question that under the terms of the machinery manufacturing licenses, the manufacturers were not allowed to sell to a throwster not licensed by Leesona. We fail to see how this is an illegal extension of the patent monopoly. The patents are assumed to be valid. Leesona had the right to license the use of the machinery separately from its manufacture and sale. *Extracol Process, Ltd. v. Hiram Walker & Sons*, 153 F.2d 264, 268 (7th Cir. 1946). Absent the restriction on sales to unlicensed throwsters, manufacturers who knowingly sold machinery to unlicensed throwsters would be liable for contributory infringement, 35 U.S.C. §271 (1970); *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 84 S.Ct. 1526, 12 L.Ed.2d 457 (1964). The throwsters placed chief reliance upon *Hensley Equipment Co. v. Esco Corp.*, 383 F.2d 252 (5th Cir. 1967); and *Ansul Co. v. Uniroyal, Inc.*, 306 F.Supp. 541 (S.D.N.Y. 1969), *aff'd in part, reversed in part on other grounds*, 448 F.2d 872 (2d Cir. 1971), *cert. denied*, 404 U.S. 1018, 92 S.Ct. 680, 30 L.Ed.2d 666 (1972). However, the *per se* offense found in these cases lay in marketing restrictions imposed upon a purchaser of patented articles, limiting those to whom he might resell. It is well established that the patent monopoly ceases after the first sale of the patented article. *United States v. Univis Lens Co.*, 316 U.S. 241, 62 S.Ct. 1088, 86 L.Ed. 1408 (1942). Thus the restrictions imposed upon purchasers of the patented article were quite properly viewed as illegal extensions of the patent monopoly. But in this case, if the patents are assumed to be valid, then the restrictions on sale were within the scope of the patent grant because they were applied to a manufacturing licensee and not a

purchaser of the patented articles, and because they did no more than to prevent contributory infringement by resale to unlicensed users.

PROFIT SHARING

[5] The throwsters relied upon *Citizen Publishing Co. v. United States*, 394 U.S. 131, 89 S.Ct. 927, 22 L.Ed.2d 148 (1960); and *Northern Securities Co. v. United States*, 193 U.S. 197, 24 S.Ct. 436, 48 L.Ed. 679 (1904), to establish the manufacturing license agreements as a form of profit sharing. However, the crucial element which is lacking here is the predetermined division of actual profits. It is true that Leesona turned over to the manufacturers a portion of its extraordinary income. But it did not guarantee a set portion of any profit to any manufacturer. If a machinery manufacturer under a Leesona license were to incur extra expenses in producing the machines, the expense would be borne by him alone. If such a manufacturer failed to achieve an expected level of sales, the loss of revenue would not be made up. The vice inherent in the illegal arrangement in *Citizens Publishing* and *Northern Securities*, was that profits were split so that each would get the benefit of excess revenue and share the burden of expenses. The nature of this arrangement is such that it might be shown that by making such an arrangement with the machinery manufacturers, Leesona effectively removed any incentive for the development of alternative technology, or market for such if developed. *Cf., Hartford Empire Co. v. United States*, 323 U.S. 386, 396, 65 S.Ct. 373, 89 L.Ed. 322 (1954). But this would require a trial on the merits. We cannot speculate on this scanty summary judgment record that does not even educate us as to the existence of alternative technologies. However unreasonable this arrangement might otherwise be, it does not come within the purview of the *per se* profit sharing offense.

PRICE FIXING

[6] Normally, a patentee may license other parties to manufacture products incorporating his invention and fix the price at which the products are sold by the licensee. *United States v. General Electric Co.*, 272 U.S. 476, 47 S.Ct. 192, 71 L.Ed. 362 (1926). However, the privilege is unavailable where two or more patentees fix the prices of products incorporating several independently owned patents. *United States v. Line Material*, 333 U.S. 287, 68 S.Ct. 550, 92 L.Ed. 701 (1947). The question now becomes whether the undisputed facts reveal an identifiable form of price fixing.

Even if it is assumed, as it must be for the purposes of summary judgment, that the purpose of the royalty payments to the machine manufacturers was to make entry into the machinery industry more attractive, it is apparent that this was achieved by guaranteeing a level of compensation. Leesona said to each manufacturer that it would receive one third of the royalties collected from each throwster using the machines of that manufacturer. It could hope that with normal use, a machine would generate a share of royalties for it, much exceeding the sales price. By acting as a conduit of the royalties between the throwsters and the machinery manufacturers, Leesona insured that there could be no negotiation between the throwsters and machinery manufacturers concerning this major portion of the compensation received by the manufacturers for the machinery. Thus, by means of the royalty shairng arrangement between Leesona and the machinery manufacturers, the price of the machinery which the throwsters would have to pay was fixed. This is clear since although the throwsters actually paid the royalties to Leesona, these payments were the direct source of the compensation paid to the machinery manufacturers. Leesona was the party that gave up a portion of royalty income to its competitors, but this does not obviate the nature of these payments as compensation to the manufactures which Leesona forced the throwsters to pay. A patentee may usually exact whatever royalty it wishes. But, Leesona and Permatwist elected

to take a one third reduction in their royalty income. There is nothing in the patent laws that allows them to decide unilaterally that the machine manufacturers would get the entire benefit of their own royalty reduction. By allocating this benefit, Leesona guaranteed income to the manufacturers and effectively fixed the price of the machinery. The machinery manufacturers who participated in the scheme were protected against free competition and free bargaining in effecting their sales to throwsters.

[7] With the "most favored nations clause" Leesona and its machinery manufacturing competitors entered into a combination under which everyone could expect that as far as the royalty kickbacks were concerned, the rate of compensation to each manufacturer would be identical. The fact that Leesona set the level of this compensation unilaterally tor itself and for its competitors and that each competitor became a party independent of the others does not alter the nature of this arrangement as one fixing prices. *United States v. Masonite Corp.*, 316 U.S. 265, 62 S.Ct. 1070, 86 L.Ed. 1778 (1942); *United States v. Gypsum Co.*, 333 U.S. 364, 68 S.Ct. 525, 92 L.Ed. 746 (1948); *United States v. Line Material*, 333 U.S. 287, 294 n.8, 68 S.Ct. 550, 92 L.Ed. 701 (1948).

[8-10] Theoretically, manufacturers compete on the intitial sales price paid by the throwsters for the machines themselves. But the sales price of the machinery consisted of two elements: the initial price of the machine and the royalty payments. Thus, an individual manufacturer might decide to grant a price concession on the initial sale of the machine which would balance any excess royalties required by Leesona. However, it has been uniformly held that competition on one or more terms of a contract does not obviate a combination among competitors to fix a different term. In *Plymouth Dealers' Assoc. of Northern California v. United States*, 279 F.2d 128 (9th Cir. 1960), it was held that fixing the asking price among automobile dealers was *per se* price fixing even through they were individually free to grant larger discounts or trade-in allowances (at 132):

> • • • When the term "fix prices" is used, that term is used in its larger sense. A combination or conspiracy formed for the purpose and with the effect of raising, depressing, fixing, pegging or stabilizing the price of a commodity in interstate commerce is unreasonable *per se* under the Sherman Act. • • • The test is not what the actual effect is on prices, but whether such agreements interfere with "the freedom of traders and thereby restrain their ability to sell in accordance with their own judgment." • • • The competition between the Plymouth dealers and the fact that the dealers used the fixed uniform list price in most instances only as a starting point, is of no consequence. It *was* an agreed starting point; it had been agreed upon between competitors; it was in some instances in the record respected and followed; it had to do with, and had its effect upon, prices.
>
> The fact that there existed competition of other kinds between the various Plymouth dealers, or that they cut prices in bidding against each other, is irrelevant. • • • (Emphasis supplied to word was. Footnote 6 not cited.)

Any reduction or limitation of price competition brings a combination within the *per se* violation despite the existence of alternative channels where competition might occur. *United States v. Container Corp.*, 393 U.S. 333, 337, 89 S.Ct. 510, 21 L.Ed.2d 526 (1969). Interference with the setting of price by free market forces alone is sufficient. There is no requirement under §1 of the Sherman Act that all avenues of competition be eliminated, or that the price fixing effectuate its purpose. *United States v. Socony-Vacuum Oil Co.*, 310 U.S. 150, 224 n.59, 60 S.Ct. 811, 84 L.Ed. 1129 (1940). *See*, also, *Stavrides v. Mellon Nat'l Bank & Trust Co.*, 353 F.Supp. 1072, at 1075 (W.D. Pa. 1973); *Mid America ICEE, Inc. v. John E. Mitchell Co.*, 1973 CCH Trade Cases, ¶74,681 (D. Ore. 1973).

[11] Leesona contended that to hold the manufacturing licenses illegal because the fixed royalty rate is an important part of the compensation paid by the throwsters would require a holding that any manufacturing license is illegal as soon as the total royalties collected by the patentee become an important component of price. However, our holding is more limited. First, it only applies in the limited circumstances arising from a

combination of patents, *cf., General Electric, supra*. Second, it only applies where the patentee fixes royalty payments to a party who is not a patentee. *Standard Oil v. United States*, 283 U.S. 163, 51 S.Ct. 421, 75 L.Ed.2d 926 (1931), allows patent holders to combine their technology in a patent pool and to charge a royalty fixed among the patent holders themselves where this conduct is otherwise reasonable. Such a course of action is necessary to cooperatively license the combined patents. *Standard Oil* does not extend to arrangements made with non-patentee competitors to fix royalties charged by the patentee or to allow the patentee to turn over to competitors a fixed compensation collected from customers of the competitors under the guise of sharing royalty income.

Per se patent abuse is here established and no showing is made that this abuse has been terminated.

AFFIRMED.

TREBLE DAMAGES

As noted earlier in its April 25, 1974 order, the District Court decided that the manufacturing license agreements signed by Leesona and the fourteen machinery manufacturers violated the Sherman Act, 15 U.S.C. §§1 and 2; and that the single heater and high speed Hilbert spindle patents, owned by Leesona and used as an integral part of these arrangements, have been misused and are therefore unenforceable. The District Court refused to grant the throwsters' summary judgment motion that these antitrust violations proximately caused injury to the throwsters for which treble damages under §4 of the Clayton Act, 15 U.S.C. §15, are recoverable. The court explained:

> The facts as agreed to, however, do not establish as a matter of law at this point the proximate cause of any damages sustained by the throwsters nor their amount. The trier of fact must determine whether the throwsters will prevail * * * as to these counterclaims.

[12] Leesona has appealed to this court, urging the facts presented to the District Court mandate a finding that, not only

the denial of the throwsters' motion for summary judgment was proper, but that the throwsters did not suffer any legal injury and that their claims are barred by the statute of limitations relating to Clayton Act claims. In support of these positions, Leesona has set forth a number of specific arguments. We, however, find it unnecessary to consider these contentions Leesona has raised with respect to lack of legal injury to the throwsters and the possible application of the statute of limitations. This portion of the District Court's order is interlocutory in nature, non-appealable, and thus not properly before this court.

The District Court entered final judgment only as to violations by Leesona of §§1 and 2 of the Sherman Act; the court specifically reserved for trial the issue of Leesona's civil liability for damages under the Clayton Act. It is only with respect to the throwsters' Clayton Act claims that the issues of legal injury and application of the statute of limitations are relevant.

[13] Leesona, citing 28 U.S.C. §1292(a)(1), has attempted to breathe finality into the District Court's reservation of these issues for trial via the injunction which was issued in the final judgment of May 25, 1974 (which implemented the relevant portions of the April 25, 1974 order); but, the injunction was addressed only to the cessation of those activities which gave rise to violations of §§1 and 2 of the Sherman Act:

> *§1. Trusts, etc., in restraint of trade illegal; exception of resale price agreements; penalty*
>
> Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal: *Provided*, that nothing contained in sections 1 to 7 of this title shall render illegal, contracts or agreements prescribing minimum prices for the resale of a commodity which bears, or the label or container of which bears, the trademark, brand, or name of the producer or distributor of such commodity and which is in free and open competition with commodities of the same general class produced or distributed by others, when contracts or agreements of that description are lawful as applied to intrastate transactions,

under any statute, law, or public policy now or hereafter in effect in any State, Territory, or the District of Columbia in which such resale is to be made, or to which the commodity is to be transported for such resale, and the making of such contracts or agreements shall not be an unfair method of competition under section 45 of this title: *Provided further*, That the preceding proviso shall not make lawful any contract or agreement, providing for the establishment or maintenance of minimum resale prices on any commodity herein involved, between manufacturers, or between producers, or between wholesalers, or between brokers, or between factors, or between retailers, or between persons, firms, or corporations in competition with each other. Every person who shall make any contract or engage in any combination or conspiracy declared by sections 1 to 7 of this title to be illegal shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

July 2, 1890, c. 647, §1, 26 Stat. 209; Aug. 17, 1937, c. 690, Title VIII, 50 Stat. 693; July 7, 1955, c. 281, 69 Stat. 282.

§2. Monopolizing trade a misdemeanor; penalty

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

July 2, 1890, c. 647, §2, 26 Stat. 209; July 7, 1955, c. 281, 69 Stat. 282.

These sections of the Act deal with criminal liability; the injunction which was issued ordered the termination of violations of a criminal statute of the United States. This injunction is in no way related jurisdictionally to potential civil liability under the Clayton Act and in no way presumes that a showing of the kind

of legal injury to succeed under §4 of the Clayton Act has been made.

[Editor's Note: The material deleted by Order on Motion for correcting Opinion, infra p. 1144, has been omitted.]

REMANDED FOR FURTHER PROCEEDINGS CONSISTENT WITH THIS OPINION.

LEX TEX LTD., INC. v. HIALEAH KNITTING MILLS, INC., et al.
Case No. 74-3695

LEX TEX LTD., INC. v. UNIVERSAL TEXTURED YARNS, INC., et al.
Case No. 74-3696

LEX TEX LTD., INC. v. CONCORDIA MANUFACTURING CO., INC., and PAUL O. BOGHOSSIAN, JR.
Case No. 74-3697

LEX TEX LTD., INC. v. GOLD MILLS, INC.
Case No. 74-3699

PATENT MISUSE

In the corrected order filed July 11, 1974, the District Court granted a motion for summary judgment filed by Universal Textured Yarns (UTY), a New York throwster, declaring the double heater patents now owned by Lex Tex unenforceable. Partial summary judgments were granted under Rule 54(b) of the Federal Rules of Civil Procedure to other throwsters on the basis of the UTY motion. In the original motion and supplements thereto, UTY submitted statements under Local Rule 10(J)(2) asserting a total of 26 material facts it considered undisputed. Lex Tex has contested below and continues to contest most of these facts. However, it has not responded with affidavits or other evidence appropriate under Rule 56 of the Federal Rules of Civil Procedure. The trial judge rejected as "perfunctory" the denials raised by Lex Tex in its Rule 10(J)(2) statement to the material facts asserted by UTY. The order does not clarify which of the denied facts are supported by the evidentiary material submitted with the UTY motions and which of the denied facts

are considered dispensable to establish UTY's entitlement to judgment as a matter of law. Many of the UTY proposed facts submitted under its Local Rule 10(J)(2) statement of material facts to which there is no material dispute relate to allegedly illegal customer restrictions, profit pooling, alleged use of licenses to insulate patents from validity contests, and a pattern of monopolization with Leesona. We have considered similar contentions against Leesona in Case No. 74-3589, where the material facts found by the trial judge were undisputed on the appeals. The legal arguments advanced by the throwsters to support these contentions are no more persuasive than the contentions raised against Leesona. We have, therefore, deemed the facts advanced by UTY to support these contentions immaterial.

[14, 15] The throwsters have also alleged that more recently issued Lex Tex licenses contain an allegedly illegal royalty escalation provision under which royalties for the double heater patents increased upon the expiration of Leesona's single heater patents in 1974. The new license agreements are included in the record; and they show that, upon the expiration of the single heater patents, the royalty for the double heater patents is calculated on a percentage of the price paid for the raw fibers. Before the expiration of the single heater patents, royalties had been calculated on the basis of the number of pounds produced without regard to the price paid for the fiber. Although some data has been presented showing that for certain sizes of yarn fiber and for fibers produced by certain manufacturers, the royalties would tend to increase after the expiration of the single heater patents, we cannot on summary judgment draw an inference adverse to Lex Tex to the effect that there has been an overall increase in royalties. In any event, the *per se* offense of charging use royalties following the expiration of the patents is governed by the leading Supreme Court case of *Brulotte v. Thys Co.*, 379 U.S. 29, 85 S.Ct. 176, 13 L.Ed.2d 99 (1964). In that case the collection of use royalties was deemed illegal only after the expiration of the last patent. Here the royalties are collected under unexpired double heater patents. Normally, a patent

holder may charge whatever it likes for a license. *American Photocopy Equipment Co. v. Rovico, Inc.*, 257 F.Supp. 192, 199-200 (N.D. Ill. 1966), *affirmed*, 384 F.2d 813 (7th Cir. 1967), *cert. denied*, 390 U.S. 945, 88 S.Ct. 1030, 19 L.Ed.2d 1133 (1968). The throwsters' allegations of patent royalty escalation do not reveal on their face any misuse of the patents, and the related facts submitted by UTY are deemed immaterial.

The Lex Tex post-treating patents cover processes designed to control the degree of bulk of the yarn which is produced under the false twist or single heater process. These post-treating processes are sometimes referred to as double heater processes, and we view the terms as interchangeable. The textured yarn produced by the single heater process is composed of filaments which are twisted up on themselves. These yarns are very bulky. If the yarn is pulled, the filaments will tend to straighten. However, they have a latent torque, and they will quickly retract to their highly twisted state if the yarn is released. By subjecting the fibers to a second heating process while the yarn fibers are fully or partially extended, the throwsters can set the degree to which the yarn fibers will twist up on themselves when the tension is released. The yarns produced at different settings will be woven into cloth which will have different characteristics of stretchability and feel depending upon the tension applied to yarn when it is set by the second heater.

Two of the post-treating patents, the '724 and '912 patents, originated with Nicholas J. Stoddard and Warren A. Seem, two of the Permatwist partners. These patents were transferred to Leesona under the 1954 agreement between Leesona and Permatwist. In 1957, Leesona began to sell its Model 511 post-treating machine under royalty-free licenses. However, users were obligated to use the machine only with torque-stretch (false twist) yarns. And in 1965 Leesona and Permatwist agreed to sell the machines only to purchasers who signed royalty bearing use licenses.

Under the 1954 agreement, Leesona was obligated to license thermal processing. However, in late 1967 Lex Tex North Carolina assumed Leesona's obligations to license the post-

treating patents diligently. Leesona shortly thereafter assigned the post-treating patents to Lex Tex North Carolina. Lex Tex North Carolina agreed to license Leesona to manufacture machines under these patents and it also agreed to pay to Leesona 25% of the royalties generated by the use of machines manufactured by Leesona. Under the agreements, Lex Tex also was required to pay the largest share of the royalty income to Permatwist.

Subsequently, Lex Tex licensed other machinery manufacturers to manufacture machinery utilizing the post-treating process. These manufacturers were entitled under the license agreements to a 25% share of the royalty income generated by the use of the machines manufactured by each manufacturer.

Lex Tex Florida was formed under the ownership of Permatwist's general counsel and Leesona's trial counsel. In 1970, Lex Tex North Carolina and Permatwist re-assigned the Stoddard post-treating patents to Lex Tex Florida. Permatwist retained the right to the bulk of the use royalties. Lex Tex Florida acquired from Ernest Scragg & Sons, Ltd., a British concern, United States patent 3,472,011 covering post-treating. Lex Tex Florida has issued licenses under all three of its post-treating patents.

It is readily apparent that Lex Tex fixes prices for post-treating machinery in the same manner that Leesona fixes prices of single heater machinery. Here, as in the Leesona manufacturing license agreements, the machinery manufacturers are guaranteed under the license agreements that portion of the compensation for the machinery or servicing which is reflected in the royalty kickback. The post-treating process can be implemented as an additional step on the same false twist machinery used to throw the textured yarn, or it may be implemented on a second machine which is fed spools of processed yarn from a single heater machine. Thus, on the machines which implement both processes, the machinery manufacturers would receive a fixed production royalty compensation through Lex Tex which would be in addition to the fixed royalty compensation received through Leesona. In this manner, the Lex Tex royalty kickbacks to the machine manufacturers

serve to fix the minimum price they receive for their machinery at a higher level.

The question of whether the arrangements involving Lex Tex come within the price fixing prohibition of the *Line Material* case presents a more difficult issue of law. In the Leesona appeals and the *Line Material* case itself, the payments which were shared among the patent holders were clearly identified as royalty income which was split in a fashion to reward patent holders for their technological contribution.** In this case the causal connection is somewhat less clear. Although Leesona is a patent holder in the same patent field as Les Tex and Permatwist, it is receiving the same level of royalty kickback as other machinery manufacturers who take licenses from Lex Tex. Its royalty share is calculated solely upon the use of the machines it manufactures and it never received anything directly from Lex Tex in relation to machinery manufactured by other manufacturers. The fact that its level of compensation in the form of a royalty kickback is the same as the other machinery manufacturers who have contributed lends support to an inference that this compensation has nothing to do with Leesona's position as a patent holder. If this is so, we may not have the combination of two patent holders to fix prices, that we condemned as to Leesona in Case No. 74-3589.

[16] However, it appears from the broad language used in the majority opinion in the *Line Material* case that the court did not view such a causal connection as a required element of the offense. It is only necessary that benefits arising from any one or more patents be shared among patentees in the same patent field to establish the price fixing prohibiton. *United States v. Line Material, supra*, 333 U.S. at 315, 68 S.Ct. 550.

**Lex Tex also shared royalty income with Scragg, the source of the '011 patent. The royalty income was clearly identified as such, and Scragg's share was calcualted on the basis of the use royalties generated on all the double heater machinery licensed by Lex Tex. However, this did not begin until 1971. We need to examine the sharing of royalty income between Lex Tex, Leesona, and Permatwist in order to establish misuse occurring before this date which would affect potential liability for infringement or breach of license agreements.

Some historical perspective is necessary properly to interpret the *Line Material* case. The Government presented the case on the theory that *United States v. General Electric Co.*, 272 U.S. 476, 47 S.Ct. 192, 71 L.Ed. 362 (1926) should have been overruled. In *General Electric*, the Court had ruled that a patent holder could properly set a sales price at which a manufacturing licensee could sell the licensed product. Of the eight Justices sitting on the *Line Material* case, four accepted the Government's position and wanted to reverse *General Electric*, see 333 U.S. 135, 47 S.Ct. 192, 71 L.Ed. 362 (Douglas, J., concurring). Three Justices viewed *General Electric* as controlling and wanted to follow it, 333 U.S. at 321, 47 S.Ct. 192 (Burton, J., dissenting). Justice Reed in the majority opinion emphasized that the rule of *General Electric* had been relied upon by the business community and that any change in the rule should be accomplished by Congress, 333 U.S. at 303, 47 S.Ct. 192. However, he saw a distinction from *General Electric* in that competition is restricted to a greater degree where two or more patent holder does so even though there was little potential for competition between the blocking patents involved in the *Line Material* case. The rationale for the distinction was that the potential for the development of competitive alternative technology is restricted by the cooperative exploitation of patents in combination with fixing sale prices, 333 U.S. at 311, 47 S.Ct. 192.

[17] This rationale applies in equal, if not greater, measure where non-patent holder competitors are also allowed to share the benefits of the patnet. Such an arrangement goes beyond the evils of *Line Material* because the non-patentee machinery manufacturers are left with less incentive to patronize alternative technology as well as the reduced incentive to do so on the part of the patent holders. The finding of misuse on the part of Lex Tex is affirmed.

AFFIRMED.

LEX TEX LTD., INC. v. BURLINGTON INDUSTRIES, INC.,
Case No. 74-3698

Among the infringement and license breach cases dismissed on August 29, 1974, Judge Atkins dismissed a Lex Tex complaint against Burlington. The basis of the dismissal was the determination that the "patents on which the case is premised" are unenforceable. Although the complaint is certainly not very lucid, we believe that it does state an antitrust case against Burlington of the same nature as the group boycott claim asserted by Leesona against Celanese/FII which were not involved in *Celanese Corp. v. Leesona Corp.*, Case No. 74-2835, as the trial court had not ruled on them.

Burlington relied upon *Consolidated Packaging Machinery Corp. v. Kelly*, 253 F.2d 49, 51 (7th Cir.), *cert. denied*, 357 U.S. 906, 78 S.Ct. 1151, 2 L.Ed.2d 1156 (1958); and *Massillon-Cleveland-Akron Sign Co. v. Golden State Advertising Co.*, 444 F.2d 425 (9th Cir.), *cert. denied*, 404 U.S. 873, 92 S.Ct. 100, 30 L.Ed.2d 117 (1971), for the proposition that an enforceable patent is a prerequisite to the maintenance of a suit for inducing breach of a license.

As far as standing to bring the antitrust claim is concerned, Lex Tex is here much more the target of the alleged violations than was alleged in the now settled *Celanese Corp. v. Leesona Corp.*, Case No. 74-2835. In that case the patentee claimed it was injured as an incidental party when the defendant's activities allegedly injured the industry as a whole. Here, Lex Tex has alleged that the nature of the antitrust violation was directed at itself.

Count III of the complaint seeks a declaratory judgment that Lex Tex has not violated the antitrust laws. This portion of the complaint has been properly dismissed in light of the other decisions holding that Lex Tex has misused the patents by committing the *per se* offense of price-fixing.

[18] As regards the other counts, if the holding of unenforceability of the Lex Tex patents stands, it is difficult to see in what manner Lex Tex could prevail. The record indicates

that, for practical purposes, it is nothing except for its patents. On the premise it has abused them, it is not apparent what other rights it can enforce by the counts other then III. In *Consolidated Packaging Machinery Corp.* as here, the unenforceability was due to an antitrust violation. In effect, it is not coming into court with clean hands. If it has a claim not premised on the unenforceable patents, it can amend. The case of *Leesona*, No. 74-2835, was different insofar as it had broad non-patent business interests, and we express no opinion concerning the counts of its complaint, not involved in its appeal.

AFFIRMED.

LEX TEX LTD., INC. v. HIALEAH KNITTING MILLS, INC.

and

LEX TEX LTD., INC. v. BOBBIE BROOKS, INC.
Case No. 74-3695
LEX TEX LTD., INC. v. BURNLINGTON INDUSTRIES, INC.
Case No. 74-3698

INVALIDITY OF THE YARN PRODUCT CLAIMS OF PATENT 3,091,912

[19, 20] By order of May 3, 1974, granting partial summary judgment under Rule 56(c), Fed.R.Civ.P. implemented in the final judgment of September 3, 1974, under Rule 54(b), Fed.R.Civ.P. the District Court held invalid all the yarn product claims of patent 3,091,912 (the '912 patent). These claims, specifically 24 through 28 and 31 of the patent, were held to be not new within the meaning of 35 U.S.C. §101 and hence overbroad and invalid under 35 U.S.C. §§102 and 282. Other claims under the patent, *i.e.*, those relating to the device itself and the production of these yarns, were not affected by this judgment. While other grounds for a finding of invalidity of the '912 patent were stated in the May 3, 1974 order, the final judgment of invalidity under Rule 54(b) was granted only as to the yarn product claims. We find these claims to be severable and thus

properly here on appeal. *Timely Products Corp. v. Arron*, 523 F.2d 288 (2d Cir. 1975). We also find the District Court acted within its proper discretion in retaining jurisdiction over those matters to which final judgment was not granted. *Sears Roebuck & Co. v. Mackey*, 351 U.S. 427, 76 S.Ct. 895, 100 L.Ed. 1297 (1956); *Cold Metal Process Co. v. United Engineering & Foundry Co.*, 351 U.S. 445, 76 S.Ct. 904, 100 L.Ed. 1311 (1956).

In granting the summary judgment motion, the District Court accepted the appellees' interpretation of an answer to an interrogatory propounded by appellee Celanese to Mr. Warren Seem, a Permatwist partner, inventor of the technology covered by the '912 patent, and a party to this litigation. This District Court construed Mr. Seem's response as an admission that the yarn product claims in the '912 patent included claims to yarns which were present in fabrics produced by the common practice of the art prior to the '912 patent. The District Court held trhat inasmuch as these yarn product claims in the patent defined matter in the public domain at the time application was filed for the patent, the claims therein are invalid for being overbroad. The interrogatory and answer which are the foundation for the District Court's decision are as follows:

Interrogatory 67.

Patent 3,091,912 states: "After 'textured yarns' in general and 'torque stretch yarns' in particular are fabricated, it is common practice to use various finishing techniques to obtain desirable fabric characteristics" (Col. 1, 11. 49-52

With respect to the quoted statement:

(a) Please identify and describe the methods of fabrication which are contemplated by the word "fabricated."

[Seem's Answer:]

Fabricated requires that a yarn be made into a new and useful form and includes knitting and weaving a yarn into fabric.

* * * * * *

(d) Please state whether or not the yarns comprising fabrics subjected to any of the "various finishing techniques" respond to the yarn definitions which are set forth in any of claims 24, 25, 26, 27, 28 and 31 [the yarn product claims] of patent 3,091,912.

[Seem's Answer:] Yes.

(e) If your answer to Interrogatory 67(d) is 'yes' as to any of claims 24, 25, 26, 27, 28 and 31, please state in detail how it was determined that the yarns in question respond to the claim definitions.

[Seem's Answer:]

The 'yarns in question' inherently possessed the active and/or latent characteristics which upon utilization of precise fabric finishing process produced desirable and results.

Appellees contend that this interchange resulted in an unambiguous admission that the common practice, *i.e.*, what was old, at the time the application for patent '912 was filed included the application of various finishing techniques to knitted and woven fabrics subjected to any of the various common finishing techniques respond to the yarn definitions which are set forth in claims 24 through 28 and 31 of the patent, *i.e.*, display the same characteristics of yarn described in these claims.

Lex Tex urges that the answer is subject to other interpretations favorable to Lex Tex which the District Court was obliged to consider on a summary judgment motion. Lex Tex argues that Mr. Seem's answer contemplated that the "yarns" referred to in the interrogatory were yarns processed by the '912 patent invention, and that the answer really states that these yarns retain the characteristics the subject of the yarn product claims in the patent and imparted by the invention covered by the patent even after being subjected to the various common finishing techniques. Thus, the '912 process gives to the yarn treated by this invention certain inherent qualities before finishing occurs; and hence the answer is then an affirmation of the '912 claims and does not admit that the claims set forth in the patent were obtainable by means of the finishing techniques in common use.

[21] Given this plausible interpretation of the questions and answers, and the general nature of the response, including the lack of specificity as to which or all of the yarn product claims the answer refers, the District Court's judgment must be reversed. We find that the interrogatory and answer are sufficiently ambiguous to brook other reasonable interpretations which the District Court erroneously refused to draw in Lex Tex's favor.

[22] Appellees Hialeah Knitting Mills, Inc. and Bobbie Brooks, Inc., have advanced in this appeal a second ground, one not utilized by the District Court, to support the finding of invalidity of the '912 patent. The disclosure provided in the patent is attacked as inadequate in that the yarn product claims listed in the patent are inherently defective since these claims, relating to improvements in existing devices, may not use "conveniently functional language at the exact point of novelty," citing *General Electric v. Wabash Co.*, 304 U.S. 364, 371, 58 S.Ct. 899, 903, 82 L.Ed. 1402 (1938); and *Bryan v. Sid Richardson, Inc.*, 254 F.2d 191 (5th Cir. 1958), thus leaving unclear the coverage of the patent. Without reference to additional factual information, now lacking in the record, we do not find the language used in the yar product claims so overbroad on its face to invalidate this patent.

REVERSED AND REMANDED.

ON PETITIONS FOR REHEARING AND PETITIONS FOR REHEARING EN BANC and ON MOTION FOR CORRECTION OF OPINION BY SAUQUOIT FIBERS COMPANY

PER CURIAM.

The Petitions for Rehearing on behalf of LEESONA, PERMATWIST and LEX TEX are DENIED and no member of this panel nor Judge in regular active service on the Court having requested that the Court be polled on rehearing en banc, (Rule 35 Federal Rules of Appellate Procedure; Local Fifth Circuit Rule 12) the Petitions for Rehearing En Banc are DENIED.

The Motion for Correction of Opinion by SAUQUOIT FIBERS COMPANY is GRANTED as follows:

From Slip Op. of Nov. 5, 1976, p. 6477, 541 F.2d 1139, delete everything in left column after the first three lines. Insert:

REMANDED FOR FURTHER PROCEEDINGS CONSISTENT WITH THIS OPINION.

The issues dealt with in the deleted two paragraphs had been settled before the date of oral argument. The Court regrets the error. We had considerable difficulty keeping straight what was settled and what was not, and particularly so with further settlements made and announced to the Court after briefing and oral argument were complete. We have attempted not to adjudicate any settled issue, although this necessitated restructuring the opinion after it was virtually complete. We are advised that Appeal No. 75-2030 has not been settled with respect to *Sauquoit v. Leesona* issues. (Cf. Slip Op., p. 6470, left column, lines 6-10, 541 F.2d 1133). The parties advise that they anticipate settlement. They are directed to take necessary steps if they settle, to get the case off our docket of record. If they do not settle, it still is not apparent how or why further consideration by us is necessary, and we will dispose of the appeal *sua sponte* if the parties do not promptly advise why we should not do so, and what we should do instead.

APPENDIX 6

United States Court of Appeals

For The Fifth Circuit

No. 74-3696

D.C. Docket No. 71-83-Civ-CA

In re: YARN PROCESSING PATENT VALIDITY LITIGATION,

LEX TEX LTD., INC.,

Plaintiff-Appellant,

versus

UNIVERSAL TEXTURED YARNS, INC. and G. ALLEN MEBANE, INDIVIDUALLY,

Defendants-Appellees.

Appeal from the United States District Court for the Southern District of Florida

Before GOLDBERG and AINSWORTH, Circuit Judges, and NICHOLS,* Associate Judge.

J U D G M E N T

This cause came on to be heard on the transcript of the record from the United States District Court for the Southern District of Florida, and was argued by counsel;

ON CONSIDERATION WHEREOF, It is now here ordered and adjudged by this Court that the judgment of the said District Court in this cause be, and the same is hereby, affirmed;

---

*Of the U.S. Court of Claims, sitting by designation.

It is further ordered that plaintiff-appellant pay to defendants-appellees, the costs on appeal to be taxed by the Clerk of this Court.

November 5, 1976

A true copy
Test: EDWARD W. WADSWORTH
Clerk, U.S. Court of Appeals, Fifth Circuit
By [illegible]
Deputy
New Orleans, Louisiana FEB 11 1977
Issued as Mandate: FEB 11 1977

United States Court of Appeals
For The Fifth Circuit

No. 74-3699

D.C. Docket No. 72-941-Civ-CA
In re: YARN PROCESSING PATENT
VALIDITY LITIGATION,
LEX TEX LTD., INC.,
Plaintiff-Appellant,

versus

GOLD MILLS, INC.,
Defendant-Appellee.

Appeal from the United States District
Court for the
Southern District of Florida

Before GOLDBERG and AINSWORTH, Circuit Judges, and NICHOLS,* Associate Judge.

JUDGMENT

This cause came on to be heard on the transcript of the record from the United States District Court for the Southern District of Florida, and was argued by counsel;

ON CONSIDERATION WHEREOF, It is now here ordered and adjudged by this Court that the judgment of the said District Court in this cause be, and the same is hereby, affirmed;

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*Of the U.S. Court of Claims, sitting by designation.

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Deputy
New Orleans, Louisiana FEB 11 1977
Issued as Mandate: FEB 11 1977

United States Court of Appeals
For The Fifth Circuit

No. 74-3697

D.C. Docket No. 71-84-Civ-CA
In re: YARN PROCESSING PATENT
VALIDITY LITIGATION,
LEX TEX LTD., INC.,
Plaintiff-Appellant,

versus

CONCORDIA MANUFACTURING CO., INC. and
PAUL O. BOGHOSSIAN, JR., Individually,
Defendants-Appellees.

Appeal from the United States District Court of the
Southern District of Florida

Before GOLDBERG and AINSWORTH, Circuit Judges, and NICHOSL,* Associate Judge.

JUDGMENT

This cause came on to be heard on the transcript of the record from the United States District Court for the Southern District of Florida, and was argued by counsel;

ON CONSIDERATION WHEREOF, It is now here ordered and adjudged by this Court that the judgment of the said District Court in this cause be, and the same is hereby, affirmed;

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*Of the U.S. Court of Claims, Sitting by designation.

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New Orleans, Louisiana FEB 11 1977
Issued as Mandate: FEB 11 1977

United States Court of Appeals
For The Fifth Circuit

No. 74-3698

D.C. Docket No. 72-940-Civ-CA
In re: YARN PROCESSING PATENT
VALIDITY LITIGATION,
LEX TEX LTD., INC.,
Plaintiff-Appellant,

versus

BURLINGTON INDUSTRIES, INC.,
Defendant-Appellee.

Appeal from the United States District Court for the
Southern District of Florida

Before GOLDBERG and AINSWORTH, Circuit Judges, and NICHOLS,* Associate Judge.

JUDGMENT

This cause came on to be heard on the transcript of the record from the United States District Court for the Southern District of Florida, and was argued by counsel;

ON CONSIDERATION WHEREOF, It is now here ordered and adjudged by this Court that the judgment of the said District Court in this cause be, and the same is hereby, affirmed;

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*Of the U.S. Court of Claims, sitting by designation.

It is further ordered that plaintiff-appellant pay to defendants-appellees, the costs on appeal to be taxed by the Clerk of this Court.

November 5, 1976

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Test: EDWARD W. WADSWORTH
Clerk, U.S. Court of Appeals, Fifth Circuit
By [illegible]
Deputy
New Orleans, Louisiana FEB 11 1977
Issued as Mandate: FEB 11 1977

United States Court of Appeals
For The Fifth Circuit

No. 74-3695

D.C. Docket Nos. 71-385, 72-1643, 1656,
72-1719, 1720, 1726
In re: YARN PROCESSING PATENT
VALIDITY LITIGATION,
LEX TEX LTD., INC.,
Plaintiff-Appellant,

versus

HIALEAH KNITTING MILLS, INC., ET AL.,
Defendants-Appellees.

Appeal from the United States District Court for the
Southern District of Florida

Before GOLDBERG and AINSWORTH, Circuit Judges, and NICHOLS,* Associate Judge.

JUDGMENT

This cause came on to be heard on the transcript of the record from the United States District Court for the Southern District of Florida, and was argued by counsel;

ON CONSIDERATION WHEREOF, It is now here ordered and adjudged by this Court that the judgment of the said District Court in this cause be, and the same is hereby, affirmed;

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*Of the U.S. Court of Claims, sitting by designation.

It is further ordered that plaintiff-appellant pay to defendants-appellees, the costs on appeal to be taxed by the Clerk of this Court.

November 5, 1976

A true copy
Test: EDWARD W. WADSWORTH
Clerk, U.S. Court of Appeals, Fifth Circuit
By [illegible]
Deputy
New Orleans, Louisiana FEB 11 1977
Issued as Mandate: FEB 11 1977

APPENDIX 7

MEMORANDUM OF AGREEMENT, entered into as of the 21st day of February , 1969, by and between LEX-TEX LIMITED, a corporation organized and existing under the Laws of the State of North Carolina and having its principal place of business at Washington, D.C. (hereinafter referred to as "Licensor"), and

BARMAG BARMER MASCHINENFABRIK AG
563 Remscheid-Lennep, Western Germany
Postfach 140-144

(hereinafter referred to as "Licensee").

WITNESSETH THAT:

WHEREAS, Licensor is the owner of United States Letters Patents Nos. 3,091,912 and 3,077,724 and Canadian Letters Patent Number 624,592 relating, inter alia, to machines, apparatus and methods for the continuous production of modified torque stretch yarn, and

WHEREAS, Licensee desires to obtain for itself and its customers certain rights under said Patents;

NOW, THEREFORE, for and in consideration of the premises and the covenants hereinafter recited and to be faithfully performed, and in consideration of the sum of One Dollar ($1.00) by Licensee to Licensor in hand paid, the receipt of which is hereby acknowledged, it is understood and agreed by the parties hereto as follows:

1. In this Agreement the undermentioned expressions shall where the context so requires have the following meanings:

(A) "Set Yarn Machine" – a machine which produces a modified torque stretch yarn by first producing a false twist torque stretch yarn and immediately thereafter modifying it by the application of heat whilst under a controlled tension (extension) all in one continuous operation.

(B) "Set Yarn Apparatus" – attachments which may be added to, false twist machines so as to convert

such machines into Set Yarn Machines as described above.

(C) "Licensed Machine" – a Set Yarn Machine or Apparatus sold or manufactured and sold by Licensee in the United States or Canada which is the subject matter of a license agreement in the form of Exhibit 1 appended hereto.

2. With respect to Set Yarn Machines and Apparatus offered for sale by Licensee in the United States and Canada Licensor agrees that it will enter into a license agreement with any customer or prospective customer of Licensee upon the terms set forth in the license agreement appended hereto as Exhibit 1 (such license agreement hereinafter referred to as "Customer License Agreement" and, such customer or prospective customer having concluded a Customer License Agreement, hereinafter referred to as "Licensed Customer").

3. Licensor hereby releases Licensee from any liability for infringement, direct or contributory, of United States Letters Patents Nos. 3,077,724 and 3,091,912 and Canadian Patent Number 624,592 with respect to any Licensed Machine.

4. Insofar as the modification of torque stretch yarn by the use of a Licensed Machine would constitute an infringement of United States Letters Patent No. 2,803,108 and Canadian Letters Patent No. 552,103 (owned by Leesona Corporation, Warwich, Rhode Island) Licensor hereby indemnifies Licensee and the Licensed Customer from any liability for any such infringement. Licensor convenants that it has been authorized by Leesona Corporation to grant the foregoing indemnities.

5. In consideration of Licensee's undertaking to solicit the use of Set Yarn Machines and Apparatus and to encourage purchasers and users of Set Yarn Machines and Apparatus to enter into license agreements upon the terms set forth in the license agreement appended hereto as Exhibit 1 and further to develop, merchandise and service Set Yarn Machines and Apparatus for the United States and Canadian markets Licensor agrees to pay to Licensee twenty-five per cent (25%) of all gross royalties received by Licensor with respect to yarn

processed on Licensed Machines. Nothing contained in this paragraph however shall limit the right of Licensor to enter into an agreement with any Licensed Customer altering or amending the terms of any license notwithstanding the fact that such alteration may reduce the royalty to be paid to Licensor by the Licensed Customer and thus proportionately reduce the share of such royalty payable by Licensor to Licensee.

6. Licensor agrees that if it should hereafter enter into any agreement with respect to the subject matter of this agreement with any other machinery manufacturer, on terms more favorable than the terms herein provided, it will notify Licensee promptly of such more favorable terms, and thereupon, if Licensee is able to comply with all the terms and conditions of said agreement it may elect in writing within sixty (60) days from the date of such notice, to substitute such different terms as a whole (but not in part) for the terms of this agreement.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed the day and year first above written.

LEX-TEX LIMITED

By /s/

BARMAG BARMER MASCHINENFABRIK AG

By /s/

LICENSE AGREEMENT

LEX
LEX
LTD

BETWEEN

LEX-TEX LIMITED

AND

Exhibit 1

EXHIBIT 1

LICENSE AGREEMENT made this day of , 196 , by and between LEX-TEX LIMITED, a North Carolina corporation, having its principal place of business at Washington, D.C., hereinafter called the "Licensor," and

(Hereinafter called the "Licensee")

WITNESSETH THAT:

WHEREAS, the Licensee is about to purchase from certain thermal processing machines equipped with a total of spindles said machines to be used in the modification of torque stretch yarns,

and to be identified respectively by the serial numbers

and being hereinafter referred to as "the machines"; and

WHEREAS, the Licensor is the sole owner of certain inventions relating to processes for the modification of torque stretch yarn which may be performed on "the machines" and, in particular, the inventions described and claimed in United States Letters Patent No. 3,091,912.

NOW THEREFORE, it is mutually agreed as follows:

1. Licensor hereby grants to Licensee a non-exclusive, non-assignable license to use in the operation of "the machines" the processes claimed in United States Letters Patent No. 3,091,912, and to sell the yarn made thereby.

2. Initually the Licensee shall pay royalty at the rate of one cent ($.01) per pound of modified stretch yarn produced on "the machines" from feed yarn of 120 Denier and below and two cents ($.02) per pound for such yarn produced from feed yarn of higher denier. Said rates of royalty shall remain in effect until August 19, 1974, or until such time as the Licensee shall no longer be required to pay a royalty under any one or more of United States Letters Patent Nos. 2,803,105, 2,803,108 and 2,803,109 with respect to the process of converting the feed yarn to torque stretch yarn

whichever shall first occur. Thereafter royalties shall be payable at the rate of 2½% of the yarn producers list price for the feed yarn processed on "the machines."

3. This license shall remain in effect until the expiration of said United States Letters Patent No. 3,091,912 unless theretofore terminated as hereinafter provided.

4. The Licensee shall at all times keep accurate records with respect to all yarn produced on "the machines" and with respect to the sale or use of such yarn. Such records and any data supporting or verifying such records may be examined by an authorized representative of the Licensor at any time during the usual business hours of the Licensee.

5. Within thirty days of the expiration of the first calendar quarter following the date of this agreement and within thirty days of the expiration of each calendar quarter thereafter the Licensee shall make payment of the royalty due and shall accompany such payment with a statement certified by a duly qualified officer of the Licensee, setting forth:

(a) A list of all of "the machines" in the possession of the Licensee with the number of spindles incorporated in each of "the machines."

(b) The quantity of each type of yarn produced on "the machines" during such calendar quarter.

Royalty shall be payable with respect to all yarns produced by the licensed process on "the machines" and not upon the sale use or other disposition of such yarn.

6. If the Licensee shall fail to make payment of royalty due hereunder within thirty days after the same shall become due and payable or if the Licensee fails or refuses to comply with the provisions of any agreement or covenant herein contained, within thirty days after written notice by registered mail of its failure to comply, or if the Licensee shall become bankrupt or insolvent or enter into any composition with its creditors, then and in any such case the Licensor shall have the right to revoke the license herein granted and provided for upon thirty days notice given to the Licensee by registered mail. The termination of the license

granted herein for any of the causes hereinabove set forth shall be witout prejudice to any right of action or remedy of the Licensor for the recovery of any royalty or license fees due them or for the breach of any agreement herein contained. The parties further agree that they will not terminate or undertake to terminate this license agreement except on grounds specifically provided for herein.

7. It is understood and agreed by the parties hereto that if any provision of this agreement is held to be invalid or ineffective, such invalidity or ineffectiveness shall not affect the validity or effectiveness of the remaining provisions hereof.

8. Notices under the provisions of this agreement shall be given by registered mail postage prepaid to the following addresses or such other address as the party to which notice is to be given shall have supplied in writing to the other party hereto, viz.

To the Licensor

LEX-TEX LTD.
815 Connecticut Avenue N.W.
Washington, D.C. 20006

To the Licensee

9. The Licensor agrees that if during the term of this license it should hereafter grant a license other than for experimental use only to any other person, firm or corporation to use the processes claimed in United States Letters Patent No. 3,091,912 for the modification of torque stretch yarn on machines of the same make and model as "the machines" or on machines of the same basic type for a royalty less than that payable under paragraph 2 hereof for each pound of torque stretch yarn modified on such machines and/or on terms and conditions substantially different from the terms and conditions herein provided, it will notify the Licensee thereof and thereupon the Licensee may elect in

writing within sixty days from the date of such notice, to substitute the lesser royalty and/or such different terms and conditions as a whole (but not in part), for the remaining term of this license; providing that the Licensee is able to comply with such different terms and conditions in the case where such are included in said notice.

10. The Licensor's rights and obligations under this agreement shall enure to the benefit of and be binding upon its successor or successors and/or assigns.

11. Any dispute or controversy arising under, out of, or relating to this agreement shall be submitted to arbitration in accordance with the rules at the time prevailing of the American Arbitration Association, New York City, New York, U.S.A., and the hearing in any such arbitration shall be held at New York, N.Y. The decision of the arbitrators shall be final and binding upon the parties hereto and shall be available to the parties hereto as the basis for judgment in any of the United States, at the instance of the party entitled to any award given by the said arbitrators.

12. This instrument contains the entire agreement of the parties hereto with respect to "the machines" and merges within itself all prior negotiations, understandings and agreements of any nature whatsoever. It shall not be altered or changed except in writing signed by the parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed by their respective officers thereunto duly authorized on the date and year hereinabove first written.

LEX-TEM LIMITED

ATTEST: By

ATTEST: By

APPENDIX 8

CONFIDENTIAL October 12, 1970

Mr. J. B. Phelps
Fi ber Industries, Inc.
Post Office Box 10038
Charlotte, N.C. 28201

Dear Mr. Phelps:

We would like to refer to your order 251-8011 on 100-Barmag FK4CS double heater false twist machines.

As we indicated in our earlier discussions, there exists a group of patents, among which are the Leesona patents

2803105
2803108
2803109

as well as the Lex-Tex patents

3091912
3077725

Barmag cannot hold FII harmless against lawsuits based on this group of patents nor can we advise you about the legality of these. We understand that some of these patents are being contested in Court.

However, Barmag has made agreements with above companies that purchasers of our FK4 machines cannot be refused to enter into an agreement with Leesona or Lex-Tex. We furthermore agree that FII is to receive whatever part of the royalty fee is being paid to Barmag, if any.

We trust that this letter will be kept confidential and we also trust that you will accept deferment of point 2) of your Conditions of Order which deals with the subject described above about holding FII harmless against patent infringements.

Sincerely yours,

AMERICAN BARMAG CORPORATION

APPENDIX 9

STEVEN MURPHY DEPOSITION EXHIBIT 19

The patent licensing situation surrounding the purchase of Scragg stretch and set false twist texturing equipment was discussed on September 25th by telephone with Timothy DuFourt and David McNeight of Scragg.

The litigation between Scragg and Leesona in Canada was recalled (Scragg lost, and for the second guessers it may be interesting to note that the reference cited, drawn to the treatment of cellulose acetate, were distinguished since they did not constitute a teaching of a "thermoplastic") following which it was necessary for Scragg to acknowledge the validity of these patents. Mr. DuFourt stated that they felt the Lex Tex patent defined novel subject matter and was probably valid, hence an arrangement was entered into whereby they would be permitted to sell Superset machines in the U.S. Apparently, the form of agreement affords a license to manufacture equipment and to sell to licensees. On the other hand, Scragg alleges it is under no prohibition regarding sales to others i.e. non-licensees which seems curiously in conflict with the former statement. Presumably, in the latter case at least, Scragg must notify Leesona/Lex Tex of the sale.

Scragg is prepared to sell equipment with a notice concerning the patents to the purchaser and with no requirement that the purchaser take any position relative to the patents (albeit they "recommend" a license). It appears that Scragg has contractual protection from Leesona and Lex Tex obligating the patentees to make available a license to Scragg's customers.

Scragg secures from Leesona/Lex Tex a return from the licensing program, as do all equipment suppliers participating. However, their percentage return is higher by virtue of their transfer to Lex Tex of U.S. 3,347,011. They hold no equity interest in Lex Tex. Scragg would be prepared to rebate an unspecified percentage of its return from Leesona/Lex Tex to equipment purchasers.

On the subject of a hold harmless, Scragg objected that there was no "real" indemnification from ARCT. As part of the litigation settlement with Leesona, ARCT/Milliken doubtless could offer an indemnification against the Lex Tex patent (although Scragg has not seen one), but this would entail taking the Milliken license which it is alleged is more expensive than Leesona and Lex Tex together.

Scragg states that there are no other patents which it is alleged the equipment infringes, and it holds no patents with process claims it would be necessary to clear. [At this point David McNeight laughingly noted that there might be Celanese patents alleged to cover the equipment, a point upon which I lightly replied we could pass over for the moment]

I inquired whether the arrangement with Lex Tex took account of the possible invalidation of any of the Lex Tex patents, pointing out that Scragg's ability to rebate in larger or smaller amounts might depend upon whether its patent, or the Stoddard/Seem patents were invalidated. This along with other specifics of the rebate question were left over for actual negotiation of a purchase. I further inquired along this line whether Scragg had evidence of invention in the U.S. prior to April 1957 (the Lex Tex filing date) and later in the conversation McNeight acknowledged that the evidence on priority of invention was sufficient to raise some doubts. The purported distinctions between the respective cases were noted, but little objection entered when I characterized the situation as being a "one or the other but not both" type. McNeight seemed concerned I was alleging some immorality in the Scragg/Lex Tex arrangement, and emphasized the doubt on priority and validity issues.

The general issue of validity in the antitrust context was mentioned, this by way of DuFourt cautioning that he thought the licensees were on a witch hunt with high hopes but little likelihood of finding anything damaging. The same point was made by Conrad/Tecce last week. I pointed out that the issue of misuse could easily revolve around matters which already appeared drom the emerging iceberg and noted

in response to favorable comments concerning Conrad's professional ability that the practices in question may well have been properly thought valid at the time they were entered into, but that a present day count could easily find difficulty with any one of them.

The difficulty of post Lear law was remarked, together with the revelation that Armitage of Milliken is requiring a bond in connection with patent licenses to secure faithful performance (presumably with forfeiture upon cancellation or notice of suit, but this would hardly seem acceptable under Lean, suggesting there may be more to it).

I inquired whether in Scragg's view, the equipment could be used in a non-infringing manner. Mr. DuFourt stated that they had recently reviewed 2803109 in the context of draw texturing and had considered that the temperatures employed at the first heater might well be sufficiently different to avoid the rather precise meaning given to the term "yarn set" by Seem in the Canadian litigation. U.S. 2,803,105 and 2,803,108 were under study on this point – no mention was made of the Lex Tex assets.

APPENDIX 10

June 5, 1969

Barmag
Barmer Maschinenfabrik A.G.
Leverkuser Strasse 65
563 Remscheid-Lennep
West Germany

Attention: Mr. Behrendt

Dear Mr. Behrendt:

In reference to the sales of the FK4C machine, we have considerable difficulties in persuading our prospective customers to enter into an agreement with Lex-Tex.

In case ARCT machines are purchased for the production of set yarn in a continuous method, they have to pay a total royalty fee to Deering Milliken of 3½% of the raw yarn list price. This, then, is about the same or even a little bit more than the combination royalty to be paid to Leesona/Tex. Even if the Lex-Tex situation is legal, and the agreement with Les-Tex has to be made, the combination ARTC/DM offers an advantage of supporting and backing up their customers when it comes to customer complaint in respect to purchased set yarns. In other words, DM offers their extensive laboratory facilities to test, evaluate and investigate process set-ups and/or customer complaints for their customer. The combination Leesona/Lex-Tex does not offer any process assistance whatsoever.

As of today, we tell the prospective client that neither we nor he is obliged to report a machine sale to Lex-Tex and that in case he has to enter into an agreement with Lex-Tex, we would give him a rebate on the royalty to a level not less favorable than what he

would have to pay to ARTC/DM, however, not to exceed 25% of the Lex-Tex royalty.

We hope that the above information is of some use to you and could be applied to persuade Lex-Tex in a lower royalty because of the absence of any process assistance or, what would be better, to persuade Lex-Tex to offer customer service in return for the royalty fee they are asking.

Best regards.

Very truly yours,

AMERICAN BARMAG CORPORATIO

H. de Haas

HdeH:dg